

**MARKET VALUE APPRAISAL REPORT**  
***STAR ACADEMY - 2019***  
**12279 Brady Drive**  
**CUSTER, SOUTH DAKOTA 57730**

**PREPARED FOR:**

Mr. Ryan Brunner  
Commissioner  
SD School & Public Lands  
500 East Capitol Ave.  
Pierre, SD 57501  
Ryan.Brunner@state.sd.us

**PREPARED BY:**

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**DATE OF VALUE OPINION:**

“As Is” Fee Simple Estate – November 8, 2019

**DATE OF APPRAISAL REPORT:**

December 13, 2019

# ***Star Academy***



***12279 Brady Drive,  
Custer County Tax Parcels:  
1621, 1622, 1623, 1627, 1628, & 1630  
Custer, South Dakota 57730***



Ken E. Simpson, MAI, SRA, R/W-AC  
State Certified General Appraiser



REAL PROPERTY APPRAISERS AND CONSULTANTS  
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December 13, 2019

Mr. Ryan Brunner  
Commissioner  
SD School & Public Lands  
500 East Capitol Ave.  
Pierre, SD 57501  
Ryan.Brunner@state.sd.us

**RE: Appraisal Report for *Star Academy*, 12279 Brady Drive, Custer, South Dakota**

Dear Mr. Brunner:

At your request, we have appraised for market value the "*Star Academy*". The subject is four-miles south of Custer, SD, fronting Hwy 385.

Custer is situated in the southern Black Hills of western South Dakota. It is a seasonal, tourism-based community with approximately 3,026 residents in and within 10 minutes driving time of Custer. Custer is just west of Custer State Park, with convenient access to Custer State Park, Crazy Horse Memorial, Mt. Rushmore National Memorial, Jewel Cave, Wind Cave and the scenic Needles Hwy.

The subject is essentially a correctional facility/school campus with staff housing, located on a site of about 173.39 ± acres. The "as is" market value of the fee simple estate is appraised. There is extensive personal property on-site although we have made no attempt to value the personal property, tangible or intangible, which is beyond our scope of work.

The Appraisal Report attached is prepared in conformance with the guidelines of the *2018/2019 Uniform Standards of Professional Appraisal Practice* and to the higher *Code of Professional Ethics and Standards of Professional Practice* of the Appraisal Institute, of which Mr. Simpson is a designated member.

The attached appraisal report is also prepared to the client's guidelines as outlined in the engagement agreement and discussions and directions from the client.

Based on the certifications, extraordinary assumptions and general assumptions and limiting conditions attached, our opinion of the market value of the subject is presented in the following table. As noted in the attached report, the final value opinion is applicable to real property only.

The effective date of value is November 8, 2019.

Approach	Opinion
Land Value - Sales Comparison Approach	\$1,387,120
Improvement Contribution - Sales Comparison Approach	\$639,060
Income Approach	Not Applicable
Cost Approach	Not Applicable
<b>Total</b>	<b>\$2,026,180</b>
<b>Final Value (Rounded)</b>	<b>\$2,000,000</b>

Note that there is a small cemetery on site. As per our agreement with the client we have completed the appraisal by excluding the cemetery from the valuation. Our instructions are that the cemetery will be retained under State ownership and not included as part of any sale of the property. Refer to Page 12 for further discussion.

Although the cemetery is centrally located in the land area and with a dedicated access easement, it is judged to have nominal impact on the subject's marketability given the large acreage size and small size of the cemetery.

We understand that the State will likely re-auction the property. It is important to note that the estimated marketing time for this property is 3-4 years and seasonally affected as well. The marketing time estimate is longer and contrary to any probable auction event, even if well-advertised and attended. A resulting auction may well have different results due to the limited marketing period.

Also, this appraisal report is not authorized for publication on the Internet or for advertising purposes.

The market value opinion is also governed by the *Scope of Work* section. *Also controlling are extraordinary assumptions and limiting conditions.* Please review these sections, *and the entire report, carefully prior to making any decisions regarding the subject. Please note that the use of Extraordinary Assumptions and Limiting Conditions can affect assignment results.*

Mr. Ryan Brunner  
Page Three  
December 13, 2019

Star Academy  
12279 Brady Drive, Custer, SD 57730

Thank you for the opportunity to provide you with this appraisal service. Should you have any questions concerning this assignment, please call.

Sincerely,



Ken E. Simpson, MAI, SRA, R/W-AC  
State Certified General Appraiser SD # [REDACTED]  
South Dakota Certification expires 9-30-2020  
Also certified in WY



Rick March  
State Certified General Appraiser SD # [REDACTED]  
South Dakota Certification expires 9-30-2020

KES/lm  
Attachment

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## SUMMARY OF IMPORTANT FACTS & CONCLUSIONS

### Property Information

Owner of Record: State of South Dakota

Property Name and Address: Star Academy  
12279 Brady Drive, Custer, SD 57730

Parcel ID #'s: 1621, 1622, 1623, 1627, 1628, 1630

### Building Characteristics

Multiple Buildings - Class C, Class D and Class S are in place. Generally, the structures are of average to good quality construction and in fair to good condition with maintenance generally suspended May 2017. The property was originally built in 1911 as a State operated Sanitorium; the complex was last modified in 1996 to be used as a resident facility for adjudicated youth. The subject consists of 27-buildings totaling 159,765 ± sf.

### Site Characteristics

Land Area: 173.39± ac as per public record

Cemetery (excluded): 0.27 ± acres (separate parcel not included in valuation)

Land Area Appraised: 173.39 ± acres

Zoning: No Zoning in Custer County

Conforming: NA

Excess/Surplus Land: None

Site Coverage: Adequate

### Market Value Indications

Approach	Opinion
Land Value - Sales Comparison Approach	\$1,387,120
Improvement Contribution - Sales Comparison Approach	\$639,060
Income Approach	Not Applicable
Cost Approach	Not Applicable
<b>Total</b>	<b>\$2,026,180</b>
<b>Final Value (Rounded)</b>	<b>\$2,000,000</b>

Effective Date of Value: November 8, 2019

Appraisal Report Date: December 13, 2019

Exposure Time: 3-4 years- "As Is" condition

Marketing Time: 3-4 years- "As Is" condition



## PART ONE: INTRODUCTION AND DEFINITIONS

### APPRAISAL PROBLEM TO BE SOLVED; INTENDED USE AND USERS OF APPRAISAL

The appraisal problem is to provide the client with an opinion of the market value of the subject "As Is". The client will use this appraisal internally for property management and liquidation decisions. No other use or users are intended or authorized by the appraisers.

### APPRAISAL OVERVIEW AND APPRAISAL PROBLEM

The subject was recently repossessed by the State of South Dakota. The residential facility for adjudicated youth, operated by the SD Department of Corrections, closed April 2016 and was sold on a contract for deed in May 2018. The grantee defaulted on the 1<sup>st</sup> of nine annual payments one-year later in May 2019. After an additional 120 days of nonpayment the State repossessed the property on September 11, 2019.

There are 16 commercial building improvements totaling 146,034± sf Gross Building Area (GBA) and 11 residences with 13,731± sf of Gross Living Area (GLA) all on 173.39± acres. Total commercial and residential space is 159,765± sf. The complex is located four-miles south of Custer, SD and fronts Hwy 385.



The State has requested a *market value* opinion of the fee simple estate of the property. There is extensive personal property associated with the complex. We have only valued the real property in this assignment. No attempt has been made to value the personal property.

*Please review the definitions and personal property section of this report.*



## COMPETENCY OF APPRAISERS- IDENTITY OF CLIENT

Mr. Simpson accepted this appraisal assignment from the client;

Mr. Ryan Brunner, Commissioner  
SD School & Public Lands  
500 East Capitol Ave.  
Pierre, SD 57501  
Ryan.Brunner@state.sd.us

Prior to accepting this assignment, we disclosed to the client that we have substantial experience in the valuation of special purpose properties and extensive appraisal experience in the Black Hills area over the past 36 years, including a previous appraisal of the subject.

Our qualifications detailing the experience and education to complete this appraisal immediately precede the addenda.

## EFFECTIVE AND REPORT DATES OF APPRAISAL

Date of Value Opinion "As Is":	November 8, 2019
Date of Property Observation:	November 8, 2019
Dates of Photographs: April 13, 2017, June 26, 2017 and	November 8, 2019
Date of Appraisal Report:	December 13, 2019

## APPRAISAL REPORT DESCRIPTION

At the request of the client, an *Appraisal Report* is developed for this assignment.

Following is a description of the content required in an *Appraisal Report* under the *Uniform Standards of Professional Appraisal Practice*, 2018/2019 Edition; Standards Rule 2-2.

(a) The content of an Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:

(a) The content of an Appraisal Report must be consistent with the intended use of the appraisal and, at a minimum:

- (i) State the identity of the client, unless the client has specifically requested otherwise; state the identity of any intended users, by name or type;
- (ii) State the intended use of the appraisal;
- (iii) Summarize information sufficient to identify the real estate involved in the appraisal, including the physical, legal, and economic property characteristics relevant to the assignment;
- (iv) State the real property interest appraised;
- (v) State the type and definition of value and cite the source of the definition;
- (vi) State the effective date of the appraisal and the date of the report;
- (vii) Summarize the scope of work used to develop the appraisal;
- (viii) Summarize the information analyzed, the appraisal methods and techniques employed, and the

reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;

- ix) State the use of the real estate existing as of the date of value and the use of the real estate reflected in the appraisal;
- x) when an opinion of highest and best use was developed by the appraiser, summarize the support and rationale for that opinion;
- xi) Clearly and conspicuously:
  - state all extraordinary assumptions and hypothetical conditions; and
  - state that their use might have affected the assignment results; and
- xii) Include a signed certification in accordance with Standards Rule 2-3.

## **PROPERTY RIGHTS APPRAISED**

The subject real property constitutes a fee simple estate premise. Market Value “as is” is the value premise. The definitions of these important and related terms follow. (See Fee Simple in Theory and Practice definition.) The definitions of these important and related terms follow.

### Real Property<sup>1</sup> is defined as:

“Real Property includes the interests, benefits, and rights inherent in the ownership of physical real estate. In an appraisal, a particular set of real property interests- not the real estate- is what is valued. Real estate in and of itself has no value; the rights, or interests, in real estate are what have value.”

### “As Is” Market Value<sup>2</sup> is defined as:

“The estimate of the market value of real property in its current physical condition, use and zoning as of the appraisal date.”

### Fee Simple Estate<sup>3</sup> is defined as:

“Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”

### Fee Simple in Theory and Practice<sup>4</sup> is defined as:

“The complexity of real property ownership in the United States today suggests that a true fee simple interest seldom exists because nearly all properties are encumbered to some degree by easements, reservations, or private restrictions. Although most appraisers defined the interest being appraised as fee simple, a partial interest is created by a lease or a mortgage.”

### Market Value of the Going Concern<sup>5</sup> is defined as:

“The market value of an established and operating business including the real property, personal property, financial assets, and the intangible assets of the business.”

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<sup>1</sup> “The Appraisal of Real Estate,” AI, 14<sup>th</sup> Edition,” Page 4,

<sup>2</sup> “Dictionary of Real Estate Appraisal,” Sixth Edition, Chicago: Appraisal Institute

<sup>3</sup> “Dictionary of Real Estate Appraisal,” Sixth Edition, Chicago: Appraisal Institute

<sup>4</sup> “The Appraisal of Real Estate,” AI, 13<sup>th</sup> Edition,” Page 111.

<sup>5</sup> “Dictionary of Real Estate Appraisal,” Sixth Edition, Chicago: Appraisal Institute, 2015, Page 143

**Note:** There is extensive personal property on-site in the form of kitchen and shop equipment. Nearly all the laundry equipment has been removed. In the value of a going concern the contribution of the personal property is an integral component of the whole (going concern). The subject is not a going concern, but rather a closed facility with minimal ongoing maintenance. Some of the personal property is being retained on site until the future use of the subject is determined. This is a reasonable premise because the personal property may have more value to the future use of the subject than its liquidated salvage value.

## **PERSONAL PROPERTY CONTRIBUTION**

Tangible, and sometimes intangible personal property are often included in sales of special use properties such as the subject. Following are definitions of the various forms of personal property are involved in the subject's former operation.

Personal Property<sup>6</sup>, (tangible) is defined as:

1. "The interests, benefits, and rights inherent in the ownership of tangible objects that are considered by the public as being personal; also called *tangible personal property*."
2. "Identifiable tangible objects that are considered by the general public as being "personal"- for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate. (USPAP 2018-2019 ed)"

Tangible personal property is identified as FF&E, or Furniture, Fixtures and Equipment by real estate professionals and market participants. FF&E is included with the value of the realty components in the final value opinion.

Furniture, fixtures, and equipment (FF&E)<sup>7</sup>is defined as:

"Business trade fixtures and personal property, exclusive of inventory."

Intangible property<sup>8</sup>is defined as:

Nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts, as distinguished from physical assets such as facilities and equipment. (USPAP, 2018-2019 ed.)

Business Value<sup>9</sup>is defined as:

The market value of a going concern, including real estate, personal property, and the intangible assets of the business.

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<sup>6</sup> "Dictionary of Real Estate Appraisal," Sixth Edition, Chicago: Appraisal Institute, 2015, Page 170

<sup>7</sup> "Dictionary of Real Estate Appraisal," Sixth Edition, Chicago: Appraisal Institute, 2015, Page 98

<sup>8</sup> "Dictionary of Real Estate Appraisal," Sixth Edition, Chicago: Appraisal Institute, 2015, Page 119

<sup>9</sup> "Dictionary of Real Estate Appraisal," Sixth Edition, Chicago: Appraisal Institute, 2015, Page 29

As a recap, the market value of the subject realty “as is” is appraised.

## **TYPE AND DEFINITION OF VALUE APPRAISED**

A current economic definition of Market Value, agreed upon by agencies that regulate federal financial institutions in the United States of America, is used in this assignment.

Market Value is defined as follows:

“The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of good title from seller to buyer under conditions whereby:

- (1) Buyer and seller are typically motivated;
- (2) Both parties are well informed or well advised, and acting in what they consider their best interests;
- (3) A reasonable time is allowed for exposure in the open market;
- (4) Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- (5) The price represents normal consideration for the property sold unaffected by special or creative financing or sales granted by anyone associated with the sale.”

Source: Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 between 1989 and 1994 and August 24, 1990 by the Federal Reserve System, National Credit Union Administration (NCUA), Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the Office of the Comptroller of the Currency (OCC).

## **SPECIAL PURPOSE PROPERTY**

The subject is a ‘special purpose property’, being an institutional treatment center.

Special-Purpose Property<sup>10</sup> is defined as: “A property with a unique physical design, special construction materials, or a layout that particularly adapts its utility to the use for which it was built; also called a *special-design property*.”

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<sup>10</sup> Dictionary of Real Estate Appraisal,” Sixth Edition, Chicago: Appraisal Institute, 2015

## SUBJECT STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND THREATS

- **Strengths** include an unusually large tract of land with a good location and hard surface highway frontage near Custer. The combination of large acreage size, aesthetic quality, good access and convenient location are relatively rare in the Black Hills land market.
- **Weaknesses** include very high maintenance costs, as well as probable carrying costs if the property were subject to real property taxes and insurance expense. Maintenance and carrying costs would have negative affect on both sale price and marketing time. Further, the special purpose building design of many of the structures limit alternative, financially feasible uses. Additionally, at the time of purchase in 2018 the subject had been properly maintained. Deferred maintenance is beginning to accelerate. Further, we are informed the State will not employ maintenance personal or occupy any of the buildings, resulting in additional deferred maintenance.
- **Opportunities** for the property are extremely limited due to the combination of location; the seasonal nature of the local economy, small community size and distance from air transportation networks, as well as the specialized nature of many of the structures.
- **Threats** to the subject are the lack of demand for the combination of the existing buildings and the high maintenance/carrying costs mentioned above.

## EXPOSURE TIME

A reasonable exposure time for similar properties to the subject, is three to four years, assuming an “as is” valuation premise.

Exposure Time<sup>1</sup> is defined as:

1. The time a property remains on the market.
2. [The] estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market. (USPAP, 2016-2017 ed.)

Comment: Market value estimates (now market value opinions) imply that an adequate marketing effort and reasonable time for exposure occurred prior to the effective date of the appraisal. In the case of disposition value, the time frame allowed for marketing the property rights is somewhat limited, but the marketing effort is orderly and adequate.

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<sup>1</sup> Dictionary of Real Estate Appraisal, Sixth Edition, Appraisal Institute, 2015, Page 83

With liquidation value, the time frame for marketing the property rights is so severely limited that an adequate marketing program cannot be implemented. (The Report of the Appraisal Institute Special Task Force on Value Definitions qualifies exposure time in terms of the three above-mentioned values.) See also *Marketing Time*.

## MARKETING PERIOD (TIME)

### Marketing Time<sup>2</sup> is defined

“An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of the appraisal. (Advisory Opinion 7 of the Appraisal Standards Board of The Appraisal Foundation and Statement on Appraisal Standards No. 6, "Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions" address the determination of reasonable exposure and marketing time.) See also *exposure time*.”

The estimate of marketing time uses some of the same data analyzed in the process of estimating reasonable exposure time as part of the appraisal process. It is not intended to be a prediction of a date of sale or a stand-alone statement. The estimate is an integral part of the analyses conducted during the appraisal assignment and may be expressed as a range. The conclusion is based on one or more of the following:

- Statistical information about days on market;
- Information gathered through sales verification;
- Interviews of market participants; and
- Anticipated changes in market conditions.

Related information garnered through this process contains other market conditions that may affect marketing time. This information may include the identification of typical buyers and sellers for the type of real estate involved, typical equity investment levels and/or financing terms. The reasonable marketing time is a function of price, time, use, and anticipated market conditions, such as the change in the cost and availability of funds; not an isolated estimate of time alone.

Marketing times of the comparable sales ranges from a minimum of two years (excluding two sales which did not receive market exposure) to five + years.

Marketing time for the subject is estimated at three to four years for the “as is” valuation premise. The marketing time opinion is based also from the market data reviewed in concert to

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<sup>2</sup>Dictionary of Real Estate Appraisal, Sixth Edition, Appraisal Institute, 2015, Page 140

the trends discussed in the region, area and neighborhood analysis sections (macro and micro-market) of this report.

## SCOPE OF WORK

### Scope of Work<sup>1</sup>

For each appraisal and appraisal review assignment, an appraiser must:

1. Identify the problem to be solved;
2. Determine and perform the scope of work necessary to develop credible assignment results; and
3. Disclose the scope of work in the report.

An appraiser must properly identify the problem to be solved in order to determine the appropriate scope of work. The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results.

*Comment: Scope of work includes, but is not limited to:*

- *the extent to which the property is identified;*
- *the extent to which tangible property is inspected;*
- *the type and extent of data researched; and*
- *the type and extent of analyses applied to arrive at opinions or conclusions.*

*Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work for an appraisal or appraisal review assignment.*

*Credible assignment results require support by relevant evidence and logic. The credibility of assignment results is always measured in the context of the intended use.*

This property was the subject for a previous assignment, completed in July 2017. As part of the previous assignment Mr. Simpson and Mr. March visited the subject site on April 13, 2017 in the company of the client, the business manager for the facility and the on-site plant manager.

Mr. March visited the subject on November 8, 2019 for this assignment. Weather conditions were high overcast clouds and seasonal temperatures in the mid 50's Fahrenheit. The 2019 site visit consisted of a walking tour of the subject with Mr. Mike Morgan, head of maintenance for the facility. All site characteristics were clearly discernible. Interior and exterior subject photos were taken during this site visit. Photos from the previous assignment are also used in this report. All photographic images obtained by the appraisers are date stamped with the capture

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<sup>1</sup>"Uniform Standards of Professional Appraisal Practice" 2018-2019 Edition, Appraisal Foundation, Page U-12



date. Some images were obtained by Mr. March with the use of an aerial drone. Mr. March holds an FAA issued unmanned aircraft pilot certificate.

The site visits do not constitute an engineering analysis; nor are they intended to result in a complete detailed physical report of the subject. The site visits were conducted solely to familiarize us with the design, quality and appeal of the subject and location, as well as the features and characteristics in and near the subject that influence market value. Building sizes, layout, room count and area in square feet per floor/building section are obtained and relied on from the public record and the previous assignment. The publication- Request for Information – Redevelopment Opportunity, published December 19, 2016 by the Governor’s Office of Economic Development was relied on for subject data in the previous assignment.

Both the Custer County Director of Equalization (DOE) and the Register of Deeds Office provided subject information. The offices are in the Custer County Courthouse, Custer, SD. DOE measured the improvements for assessment purposes after the contract sale was completed in 2018.

Market data are obtained from the Mt. Rushmore Multiple Listing Service (MLS), regional appraisers and various market participants. Other data are obtained from our work files of various appraisal assignments. We collected data for this assignment from October 14, 2019 to December 12, 2019.

This appraisal considers the three traditional approaches to value; cost, income capitalization and sales comparison. The cost and income approaches are not relevant to the valuation problem. Land is valued using a sales comparison approach. We also rely on a sales comparison approach for valuation of the improvement contribution. The relevant approaches are discussed in detail later in the report.

We have completed this appraisal with a limited amount of data over a relatively brief span of time. We have spent our time and effort in the investigative stage of this appraisal where we think it may do the most good, but inevitably there is a significant possibility that we do not possess all information relevant to the subject, or to the comparable data, utilized for this assignment. There is also an economic constraint. The client’s budget did not contain unlimited funds for appraisal study and investigation. However, there was adequate time and budget available to produce credible appraisal results. Moreover, for credible appraisal results a Level B Market Analysis is completed for this assignment.

The definition of a Level B<sup>1</sup> market analysis follows.

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<sup>1</sup>“Market Analysis for Real Estate, Second Addition,” Appraisal Institute: 2014 Edition, page 22.

“Level B analyses employ area-wide market data on a general property class. The projected use conclusions are more subject-specific, and the timing projections depend on interpretation of market wide data on the property type. For example, a Level B analysis typically employs data from regularly published, area-wide market surveys prepared by proprietary firms or public agencies. These surveys are usually conducted for each class of property, e.g., retail, apartment, office building. The data are updated at regular intervals, either quarterly or semi-annually. However, even periodic updates may lag behind changes in a dynamic market in which data become obsolete all too soon. These surveys typically cover large parts of the city, and the geographic boundaries of the survey only rarely conform to the relevant submarket for the subject property. The analyst usually makes an inference that the subject property’s submarket will perform in a manner similar to the historical performance of the properties in the survey’s large geographical area...”

## **EXTRAORDINARY ASSUMPTIONS, LIMITING CONDITIONS AND DISCLOSURE**

In addition to the general assumptions and limiting conditions contained in the addenda, the following extraordinary assumptions; and limiting conditions, govern the development and conclusions of this appraisal. The relevant definition is provided next.

Extraordinary Assumption <sup>11</sup> is defined as:

“An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser’s opinions or conclusions. Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. (USPAP, 2018-2019, ed.)”

1. As an Extraordinary Assumption-the Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have not made a specific compliance survey to determine whether the subject is in conformity with the various detailed requirements of the ADA. It is possible that the property does not comply with the requirements of the act, and non-compliance could adversely affect the market value opinion(s) of the subject. However, since we have no direct evidence relating to this issue, we did not consider possible non-compliance with the requirements of the ADA in developing the market value opinion(s) of the subject.
2. As a limiting condition- we assume the subject is and will continue to be in conformance with all required licenses and permits, (hospitality, health and safety etc.) although we have not conducted any specific investigations to confirm same, especially as related to operation of the waste-water system.
3. As an Extraordinary Assumption, we assume the subject is not affected by any environmental hazards, including asbestos, or environmental hazards from the waste-

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<sup>11</sup> “Dictionary of Real Estate Appraisal,” Sixth Edition, Chicago: Appraisal Institute, 2015, Page 83-84

water facility and/or contamination from the cemetery. We are unaware of any Phase 1 environmental studies conducted for the property.

*Please be advised, the use of extraordinary assumptions can affect assignment results and perhaps adversely so.*

## **PART TWO: FACTUAL DESCRIPTIONS**

### **IDENTIFICATION OF THE PROPERTY**

Street Address: 12279 Brady Drive, Custer, SD 57730

Custer County Tax Id Numbers: 1621, 1622, 1623, 1627, 1628, and 1630.

**Note:** Parcel 15360, the Cemetery Lot is excluded from the assignment.

Legal Description: SW<sup>4</sup>SW<sup>4</sup> Section 12; W<sup>2</sup>NW<sup>4</sup> Section 13; SE<sup>4</sup>NE<sup>4</sup>, Less Cemetery Lot in SW<sup>4</sup>NW<sup>4</sup> Section 13 and SE<sup>4</sup>NE<sup>4</sup> Section 14, Less Lots H2 & H3; Tract B of HES #169, Less Lot H1, Section 14; Part of HES #169, Less Lot H1, Sections 13, 14, & 23; Township 4 South; Range 4 East; BHM, Custer County, South Dakota.

(The source of the legal description is the Custer County Department of Equalization records. However, deeds and legal documents should not be prepared without confirmation of the accuracy of the legal description through a title insurance company or real estate attorney).

Ownership: Current ownership is to the **State of South Dakota**, as evidenced in an affidavit of Ryan Brunner, Commissioner, School and Public Lands Pursuant to SDCL 5-9-25 dated September 11, 2019 and filed in Book 47 Misc. on Page 101, in the Custer County Register of Deeds Office.

### **HISTORY OF THE SUBJECT**

The subject was originally developed in 1911 as a Sanatorium for treatment of tuberculosis. After the advent of antibiotic treatment in the 1940's and 1950's tuberculosis was largely mitigated then from being an ongoing public-health threat.

In 1963 the facility's mission changed to a developmental hospital for the severely disabled and its name changed to the Custer State Hospital. In 1996 the facility's mission changed again and it became a residential facility for adjudicated juveniles, named the State Treatment and Rehabilitation (STAR) Academy. On April 8, 2016, the facility was closed and maintained by a skeleton staff.

The subject sold on a contract for deed to SLIC-E Holdings LLC May 1, 2018 for \$2,340,000 after sale at public auction. In May 2019 the grantee defaulted on the 1<sup>st</sup> of nine annual

payments. After an additional 120 days of nonpayment the State repossessed the property on September 11, 2019. Minimal maintenance of the facility was performed since closing in April 2016.

The facility is reportedly capable of housing and educating 200 inmates, plus staff. There are 16 commercial buildings totaling 146,034 ± sf and 11 single family residences, totaling 13,731 ± sf.

The State is currently evaluating alternatives for use and discontinuing all maintenance activities on the property; including shutting down the water and sewer systems and holding the property in non-use or dormant status.

As of the date of the site visit, the subject had one maintenance employee on staff. We are informed that all maintenance positions for the property are being terminated. We are also informed 3 residences were occupied on the date of the site visit. All tenants have been informed they have until March 31, 2020 to evacuate the property. We are unaware of any other sales, leases, or listings currently affecting the subject. Further, we are unaware of any major casualty losses or environmental hazards affecting the subject. (See extraordinary assumptions and limiting conditions regarding environmental concerns).

## MACRO-MARKET AREA DATA AND TRENDS

The subject, Star Academy, is situated just south of Custer, SD, a small Black Hills summer tourism community with a population of 1,817 in 2010.

Rapid City is the regional shopping, services and employment center for the Black Hills and center of government for Pennington County.

As such, the macro-market study focuses on Rapid City and immediate area. Custer itself is 25 air miles southwest of Rapid City. Driving time is 40 minutes from the Hwy 16 – Catron Intersection in the SW quadrant of Rapid City to Custer, although often longer during the summer peak tourism season.



Rapid City itself is situated in the southwestern quadrant of South Dakota, along the eastern edge of the Black Hills. The city is sited at an average elevation of 3,100 feet. Rapid City is about 400 miles northeast of Denver, Colorado and approximately 650 miles southwest of Minneapolis, Minnesota. Rapid City is the largest city in western South Dakota and the center of government for Pennington County.

Following is a table showing population in Rapid City, the Rapid City MSA and Pennington County over the past few decades.

**Table 1**

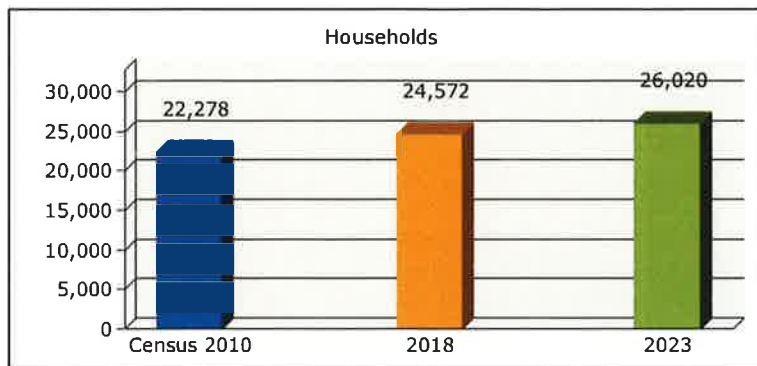
Population for Rapid City and Pennington County For 1990, 2000 & 2010			
Area	1990	2000	2010
City of Rapid City	54,523	59,607	67,956
Rapid City MSA	65,000	86,600	126,382
Pennington County	81,343	88,565	100,948

Pennington County's population grew about 13.99% over the past decade. As of July 1, 2019, Rapid City MSA Population is reported to be 151,241; the current Trade Area Population is

about 371,600. The population of nearby Ellsworth AFB is 4,165.<sup>1</sup> City population is about 67,950 by most recent reports.

Pennington County is about 2,776 square miles. The growing households are illustrated in the adjoining graph, which shows projected household change within a five- mile radius of the city from 2018-2023. (Source: [www.stdb.com](http://www.stdb.com))

**Table 2**



Access to Rapid City is convenient. Interstate 90 fronts the entire north boundary of Rapid City and linkage routes to Interstate 90 are good in all directions. Several two-lane state highways enter Rapid City from the south, north and west. On and off-ramps from Interstate 90 are located throughout Rapid City. There are no major changes expected in east/west bound Interstate 90.

The Black Hills are best described as small mountains and pine forest with shallow canyons. The Black Hills cover an area of 2,150 square miles, three-fourths of which are in South Dakota and the remainder in eastern Wyoming. Average elevation is 4,500 feet with peaks over 6,960 feet. Average annual rainfall is 17 inches, 38 inches for snowfall, in Rapid City. Annual precipitation varies from less than 16" in the SW portion of the market area, to over 34 inches of average annual precipitation in the northwest corner of Pennington County.

The Black Hills contain most of the towns and transportation routes in western South Dakota, with a tourism industry vital to the region. Mt. Rushmore National Memorial, the nearby Badlands National Park and the Black Hills National Forest are a few of the natural resources that annually attract millions of tourists to the area.

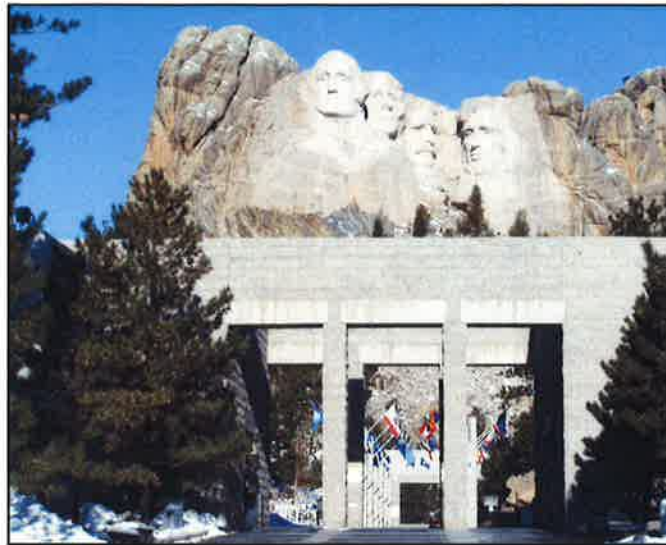
<sup>1</sup> [www.city-data.com/city/Ellsworth-ABF-South-Dakota.html](http://www.city-data.com/city/Ellsworth-ABF-South-Dakota.html)



The single most important statistic of tourism in the Black Hills is the number of visits to the Mount Rushmore National Memorial near Keystone, SD in the central Black Hills.

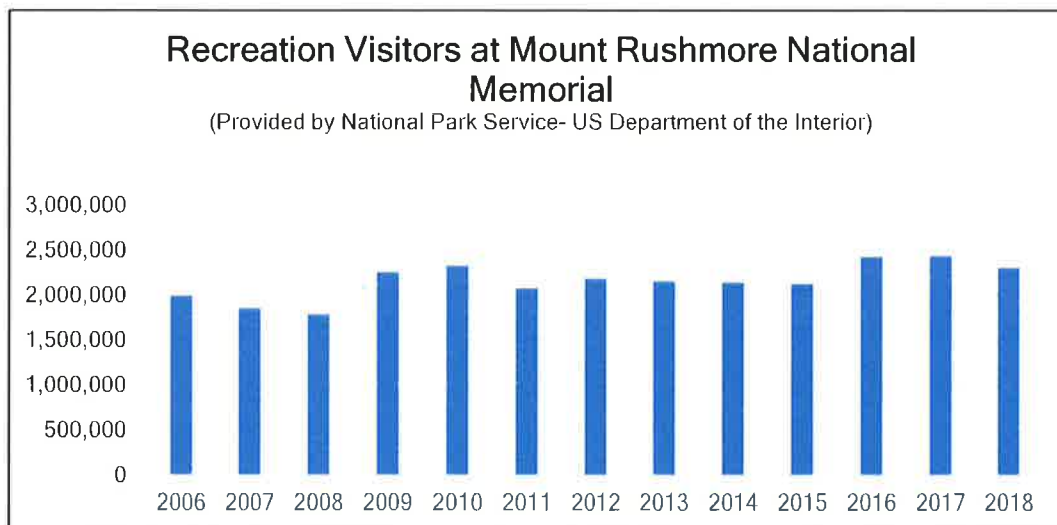
Mount Rushmore is about 25-35 minutes, travel time from the subject.

Following is a table illustrating the number of visits to the Memorial over the past several years.



**Mount Rushmore National Memorial & Avenue of Flags**

**Table 3**



Most land in western South Dakota is agricultural, specifically grasslands supporting beef cattle and small grain farming. Tourism, service industries, health care, forest products, mining, education, and governmental sectors contribute to provide a moderately diversified economic base for the Black Hills region.

In November 1989, limited stakes gambling was approved in historic Deadwood, which is located approximately 50 miles north of Rapid City. The gaming industry experienced rampant growth and significantly benefitted the region. Several casino operations were built in Deadwood, along with supporting restaurant and hotel properties in the Deadwood area.



Over 22.80 billion dollars have been wagered since gaming began in November 1989, creating over 1,400 estimated jobs. Gaming is still significant in western South Dakota, although the industry is now stabilizing and consolidating. The State of South Dakota also legalized video lottery (blackjack, poker, bingo, etc.) games in October 1989. The lottery has been a substantial source of income to the state, helping to offset increases in sales and slightly reduce property taxes statewide.

The Rapid City economy is diversified. There are over 50 employers have more than 100 employees. Most notably Ellsworth AFB has 3,196 active duty military and 1,095 civilian employees as of September 30, 2017, (28<sup>th</sup> Comptroller Squadron- Ellsworth AFB). Ellsworth was recently selected as the preferred location for the first operational B-21 Raider Bomber and the formal training unit on March 27, 2019. This new mission will add military and civilian employees to the base. The first B-21 Raider will be delivered beginning in the mid-2020s.

Employment is also bolstered by larger companies and entities in Rapid City. A table reporting employers with 300 or more employees is presented next, excluding Ellsworth AFB. Data are provided by [www.rushmoreregion.com](http://www.rushmoreregion.com)

Table 4

MAJOR EMPLOYERS- 2016			
<i>Employer</i>	<i># Employees</i>	<i>Employer</i>	<i># Employees</i>
Rapid City Regional Hospital	5,100	Black Hills Corporation	850
Federal Government	2,912	Black Hills Works	550
City of Rapid City (F/T Benefit-815) (Temps -1,440)	2,255	Liv Hospitality	733
Rapid City School District	1,774	Synchrony Finance	325
State of South Dakota	1,217	BH Surgical Hospital	309
SD Army National Guard	1,025	ASI, Inc.	319
Walmart/Sam's Club	1,399	National American University	350
Pennington County	743	SD School of Mines & Technology	370

The following information displays the labor force activity over the past several months in the Rapid City MSA and the State of South Dakota, according to the South Dakota Department of Labor and Regulation (SD DLR) e-Labor Bulletin, available via a link from the SD DLR website.

Table 5

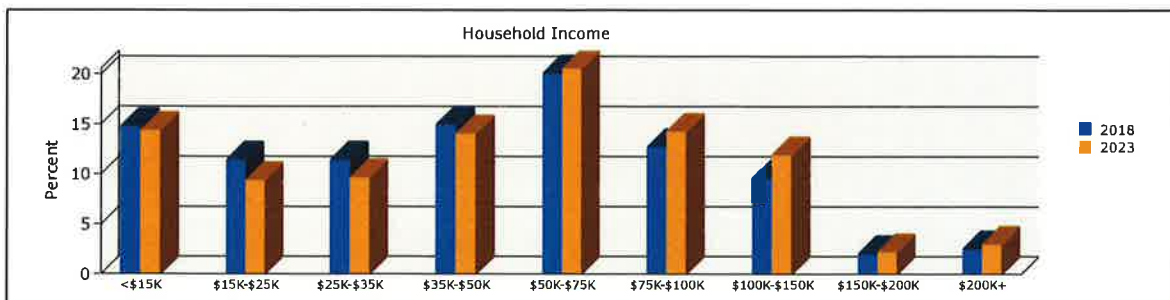
LABOR FORCE STATISTICS - Not Seasonally Adjusted						
Area	Date	Labor Force	Employment	Unemployment	Rate	% Δ Change
Rapid City MSA	Aug-18	77,891	75,670	2,221	2.90%	
Rapid City MSA	Aug-19	78,680	76,326	2,354	3.00%	3.45%
Pennington County	Aug-18	59,024	57,377	1,647	2.80%	
Pennington County	Aug-19	59,633	57,873	1,760	3.00%	7.14%
South Dakota	Aug-18	462,612	449,405	13,207	2.90%	
South Dakota	Aug-19	471,765	457,858	13,907	2.90%	0.00%

The labor force table shows low unemployment in the State and Rapid City MSA. The low unemployment is a positive factor. The national unemployment rate was about 3.5% as of November 2019, slightly higher than the rate reported in the Rapid City MSA and South Dakota in general.

Rapid City features the Rushmore Plaza Civic Center, which includes an 11,500-seat arena, 1,774 seat-theater, and 120,000 square feet of exhibit space. The Civic Center houses several hundred conventions; regional and national association meetings, businesses, and civic groups annually. It was then expanded to provide for professional hockey and other sports. The civic center campus is located about 15 blocks south of the Rushmore Mall and two blocks north of the CBD. The Civic Center convention business was strengthened in 1990 by the addition of a 205 room Class A hotel, the Rushmore Plaza Holiday Inn located next to the Civic Center. In May 2002, a limited service Howard Johnson Hotel was built near the Civic Center Campus as well.

Household income in 2018-2023 within a five-mile ring of Rapid City is shown and forecast in the next chart. The income concentrations are well distributed and 11.9±% of the households exceed \$100,000 annually. The single largest category is \$50k - \$75k, with most income growth expected in the \$75K-\$150K ranges over the next five years. (Source- [www.stdb.com](http://www.stdb.com) )

Table 6



The Rapid City Regional Hospital campus is located at the intersection of Fairmont Boulevard and Fifth Street in south Rapid City. The hospital entity has nearly 5,100 employees and caregivers today, the largest employer in the region. Rapid City Regional Hospital's growth

mirrors its importance with a 20 million-dollar cancer care wing completed in 1993 and a 38 million-dollar cardiac care facility expansion in 1995.

Regional is now beginning another extensive expansion in a multi-year, phased project that will include significant expansion of the emergency department, including a 32-bed inpatient unit, the addition of parking structures for 1,300 vehicles, rooftop helipad and drive through ambulance garage. The last phase of the renovation and expansion is underway and scheduled for completion in summer of 2020, with a new main entrance as depicted next from [www.regionalhealth.org](http://www.regionalhealth.org). Beginning January 2020 Regional Health will change its name to Monument Health.



Regional Health also just completed construction of an advanced orthopedic and sports medicine facility at nearby Buffalo Crossing at the intersection of Catron Blvd and S Hwy 16, or a few minutes southwest of the hospital campus, shown in the following photo. Physician movement into Rapid City is positive, still affecting office absorption in the medical corridor near the hospital and in other competing areas of Rapid City.



Commercial and retail building rents in the city range from \$5.00 sf to \$15.00 sf in the newest strip centers. Leases are a mixture of mostly net-net-net and gross, modified-net arrangements. Some rents increased slightly over the past few years, perhaps 2% per year for the best properties, although static trends are also noted. "First Tier" medical office rents range from

\$14.00 sf to \$25.00 sf, usually on a triple-net (net-net-net) lease premise. Professional office rents vary widely, from \$6.00 sf in older “third-tier” properties to \$22.00 sf (net-net-net) in the newest first tier offices. Vacancy rates vary with the newest properties almost 100% occupied and second and third tier medical and professional office vacancy rates ranging from 5-10%.

Ordinary commercial building vacancies are approximately 5-10% city wide and reflecting broad property types. Commercial vacancy trends are decreasing in some segments. The most acute change is the absorption of the over-supply created from the construction of several new retail strip centers built throughout the city over the past ten years. Vacancy rates in these properties were commonly above 25% in 2000-2002 and now average about 13%.

Light industrial and manufacturing increased in Rapid City from the late 1970's to the late 1990's and is now judged stable. The past increase in this sector is due, in part to enhanced promotion of the Rapid City Chamber of Commerce, the Rapid City Economic Development Corporation and the availability of certain financial incentives. All factors are part of a state effort to provide startup capital and expansion funds for businesses wishing to expand or relocate to South Dakota. However, it is noted that manufacturing comprises only 6.3% of the total economic base<sup>1</sup> and there is no current market evidence to suggest this sector will expand or increase markedly in the foreseeable future.

Industrial and manufacturing are very small markets compared to the service sector in Rapid City. “Soft” industrial uses are far more common than manufacturing or heavy industrial users, i.e., companies closely associated with the service sector, but operate and depend on business from the industrial arena.

Throughout the macro-market, light industrial properties are predominately owner-occupied. For the much smaller rental market, office-warehouse properties report triple-net (NNN) rents from \$4.00 to \$8.00 sf; heated warehouse space at \$3.00-\$8.00 sf and refrigerated/freezer storage at \$8.00-\$15.00 sf. Vacancy rates in the light industrial market are 2-3%, based on a drive-through viewing of the industrial nodes of the city. Rents had been mostly stable since the national recession in 2008, although commonly some net-net-net leases include one to no more than 3% per year base rent escalations.

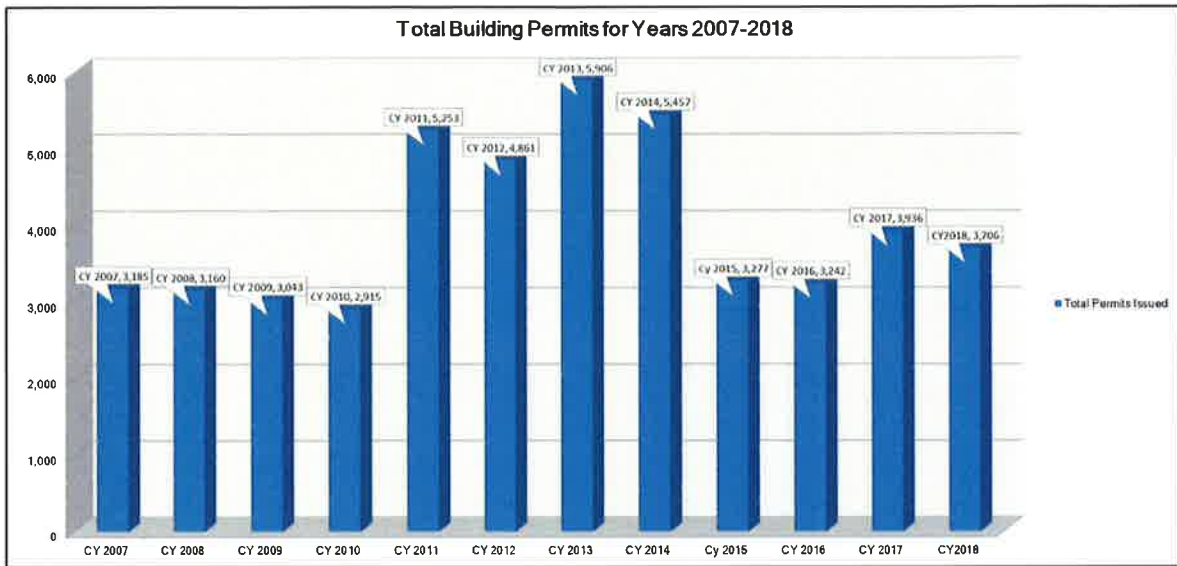
Produced next is a table and chart showing building receipts for the past several reporting years. The data are obtained from the City of Rapid City.

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<sup>1</sup>[www.stdb.com](http://www.stdb.com): Site to Do Business

Table 7

Rapid City Building Permit Summary												
Total Valuation	\$212,640,288	\$156,618,321	\$117,549,865	\$132,773,559	\$258,990,182	\$207,811,337	\$244,253,223	\$214,924,664	\$219,494,524	\$320,054,359	\$302,570,950	\$313,445,767
Period	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	Cy 2015	CY 2016	CY 2017	CY2018
Total Permits Issued	3,185	3,160	3,043	2,915	5,253	4,861	5,906	5,457	3,277	3,242	3,936	3,706

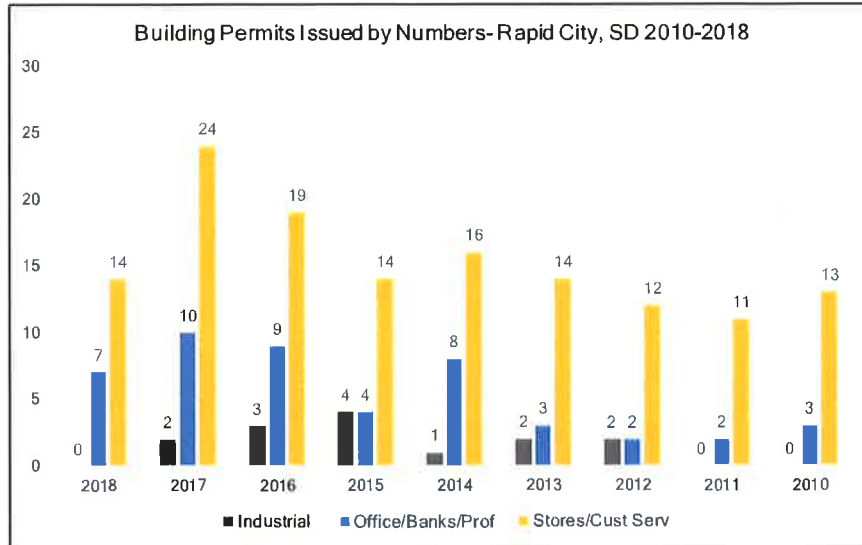


Most notable in the data is in the 2011-2014 increase in the numbers of permits in contrast to the previous years and the most recent years. The broad increase in value in 2011 was partially due to various government funded projects, such as office buildings, a new water project, a new school and an expansion of the Rapid City Regional Airport, continuing in part into 2012. Also, the City now requires building permits issued for roof cover replacements due to hail, which significantly increased permit numbers in total in the 2011-2014 period and nominal hail in 2015 and 2016.

There are very few industrial permits being issued in the macro-market. To illustrate, the following table is a comparison of three categories of permits issued from 2010 through 2018.



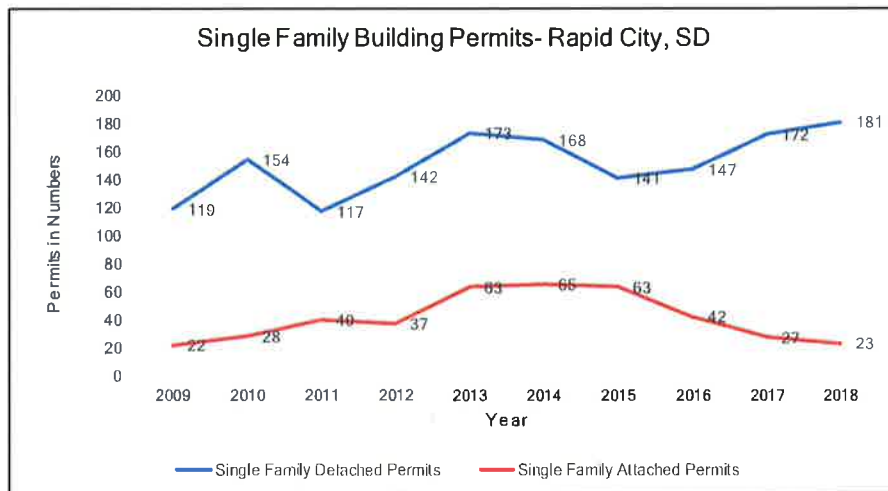
**Table 8**



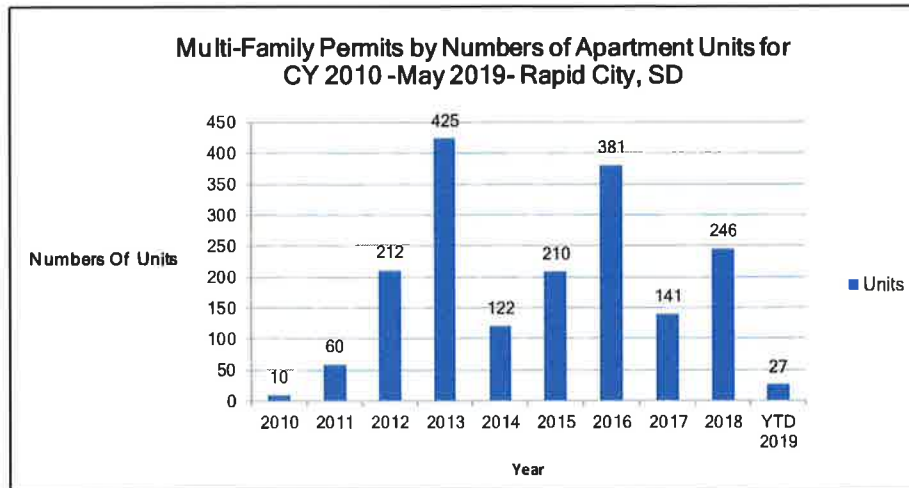
The table above shows the predominance of permits issued are for stores and customer service, followed by new office/banks/professional development versus the near stagnant industrial market. No industrial permits were issued in 2018 or year to date 2019 in Rapid City. (Note, some industrial oriented properties are likely placed in other commercial categories.)

The following graph displays single family building permits, detached and attached, as reported by the Rapid City Building Department over approximately the past 10 years. Single family detached permits are shown by the blue lines, attached permits by the red line in the graph.

**Table 9**



The next graph displays multi-family building permits issued and numbers of apartment units in the permits in Rapid City over a multi-year period, also as per the Rapid City Building Department.

**Table 10**

As in the analysis of building permits for other property types in Rapid City, the preceding graph clearly displays the effect of the national recession in the market between the years of 2008 through 2010, with recovery emerging in 2011 through 2013.

The building permits issued in 2013 are at par with permits issued during the real estate “bubble” in 2006-2007, although with very high numbers of apartment units built. The following immediate decline in permits in 2014 is likely due to reaching equilibrium in supply, followed again by a 3-year ramp up to the second highest numbers of units built in 2016, followed by a decline in 2017. Based on the trend of three-year cycles of increases, followed by decline, 2019 may have more units and permit numbers than 2017 and 2018. Of note, most of the multi-family permits issued are for 5+ family projects, rather than 2-4 family projects.

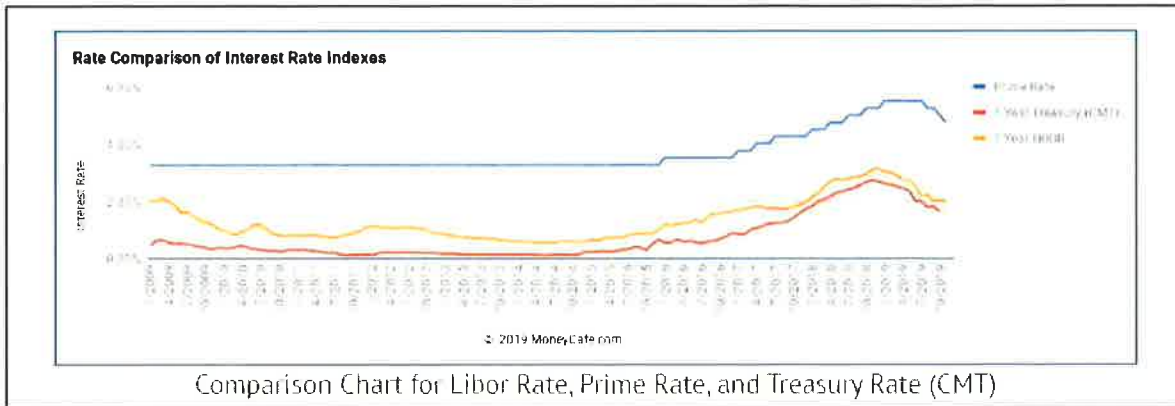
The South Dakota Department of Labor and Regulation website includes an e-Labor Bulletin, which notes that average annual pay from July 2017 to June 2018 (updated quarterly) of covered workers in the Rapid City MSA was \$41,060, as compared to the \$43,008 statewide average and the \$47,948 amount reported in the largest population area of the state, the Sioux Falls, SD MSA.

Mortgage interest rates for single family homes have decreased over the past several years, from 6.25% in early 2000 to 3.72% on December 12, 2019 as reported in [www.bankrate.com](http://www.bankrate.com). In the last few years, mortgage rates had been fluctuating from about 3.43% to about 4.60%, or historic lows.

The Federal Reserve beginning increasing the prime rate in December 2015, following a long-period of rate decreases due to the national recession in 2008-2009. The prime rate was decreased again recently and is now 4.75%. The rate and common indexes are compared over several years in the next table.



Table 11



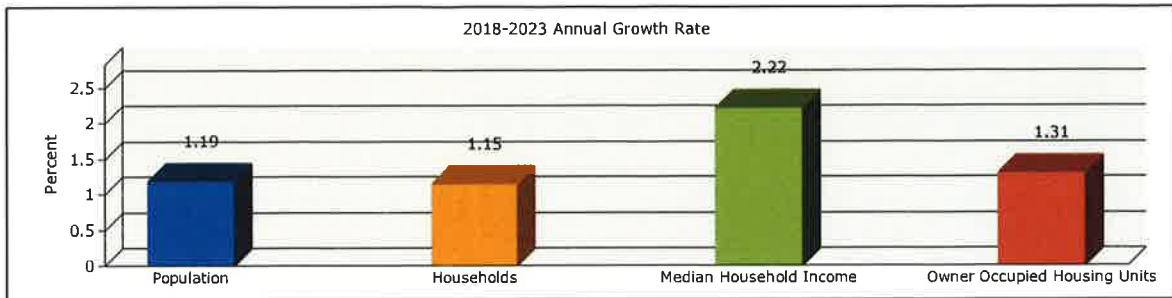
Utility services are reliable and adequate throughout the macro-market area. Natural gas is the predominant choice for heating. Municipal water and sewer service coverage extends to almost 100% of the city area. Some areas at the city fringe are serviced by community and private wells, individual septic systems and propane gas. These private services are also market accepted.

Rapid City also benefits from a good quality, modern, regional airport terminal, located just east of the city proper in the Rapid Valley area, with a recently completed major terminal expansion and remodeling project. The airport has adequate jet and commuter service by national carriers (Delta/Skywest, United Express and American) plus charter and other air service, such as Allegiant Airlines that serves Las Vegas and Phoenix. American Airlines offers regular, year-round service to Dallas and Chicago. Seasonal service (June to September) from American is offered to Charlotte. United Airlines offers regular year-round flights to Denver and Chicago. United also offers seasonal non-stop service from Rapid City to Newark and Houston. Delta Airlines offers regular year-round flights to Minneapolis and Salt Lake City. Delta's seasonal service links Rapid City to Atlanta.

Rapid City has no corporate income tax, personal income tax, inventory tax, or personal property tax. Beginning July 1, 2005, the City sales tax changed back to 2%, which for the previous few years had been 1.8%, a decrease from the previous 2% rate. This factor is judged market neutral. State sales tax increased from 4% to 4.5% effective June 1, 2016, considered to be a neutral event to real property values. South Dakota does not have an income tax, nor is one likely in the foreseeable future. Several attempts to enact a state income tax were met with strong voter opposition.

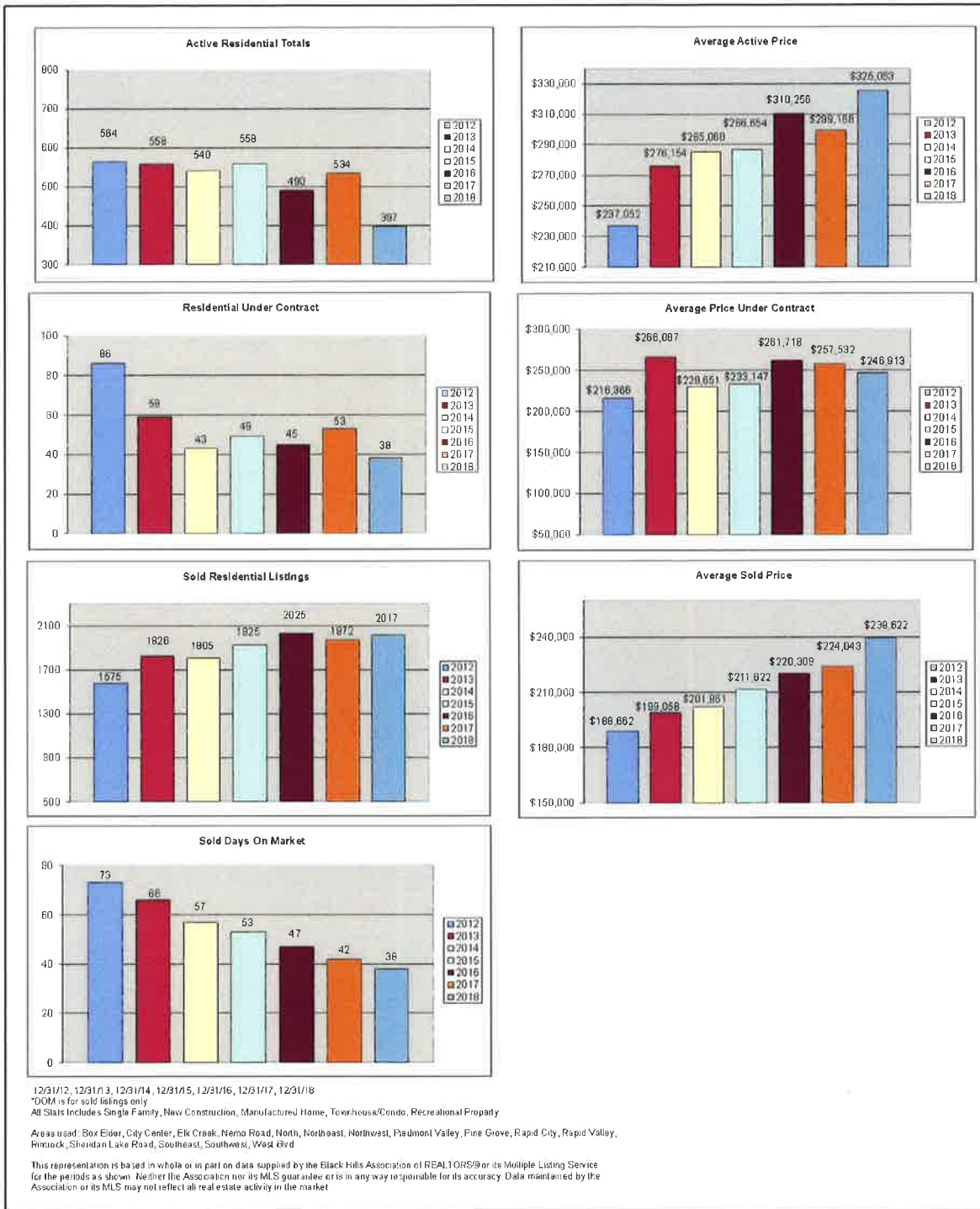
Various growth rates are presented in the next graph, which shows a five-mile ring radius around the Rapid City. (Source: [www.stdb.com](http://www.stdb.com) )

**Table 12**



Relevant year end CY2012 through 2018 graphs showing varying elements of the housing market reported by the Black Hills Multiple Listing Service follow. Generally, sales activity in 2018 was slightly more than 2017, although with fewer properties listed for sale. Year over year average sold price has increased each year from 2012 through 2018, with average days on the market of sold properties decreasing year over year in the same period.

Table 13

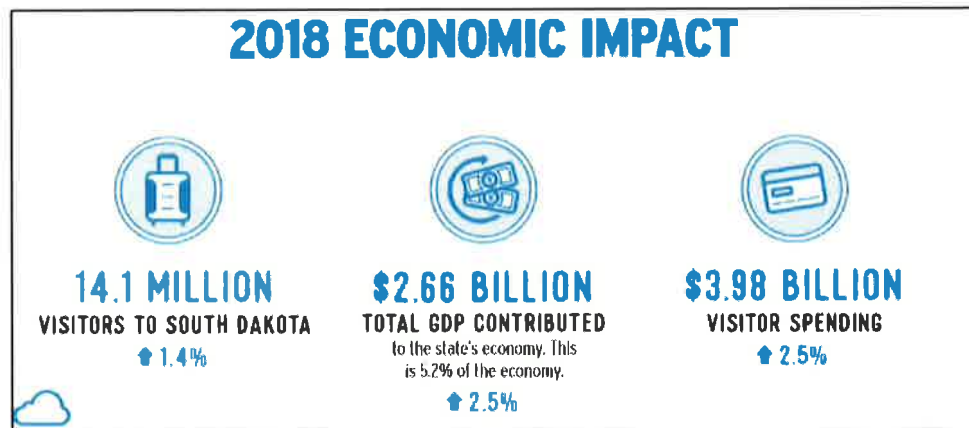


## HOSPITALITY/TOURISM SUBMARKET COMMENTS

The *South Dakota Department of Tourism* commissions a report of the economic and fiscal impacts associated with the vacation travel industry each year.

The 2018 report was published in May 2019. It concluded that tourism spending totaled \$3.98B dollars in 2018, a 2.5% increase over 2017 with 14.1 million visitors to South Dakota. Historically, the Black Hills and Badlands region has captured approximately 60% of the statewide visitor expenditure, a consistent percentage reported over several reporting periods. The percentage shows the dominant vacation travel market share of the Black Hills region as compared to the State in total. Statewide impact in 2018 is shown in the next exhibit.

Table 14

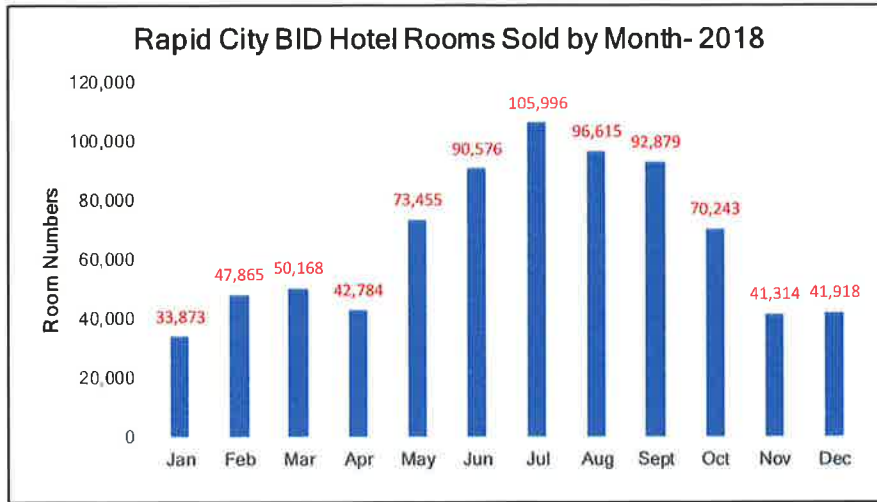


According to the Tourism Report, 13.2 million hotel room nights were booked in South Dakota in 2018, a 2.2% increase over 2017 with average hotel occupancy of 56%, a 0.5% increase over 2017. The report noted a 3.3% increase in airport arrivals at the Sioux Falls and Rapid City Regional Airports in 2018 over 2017.

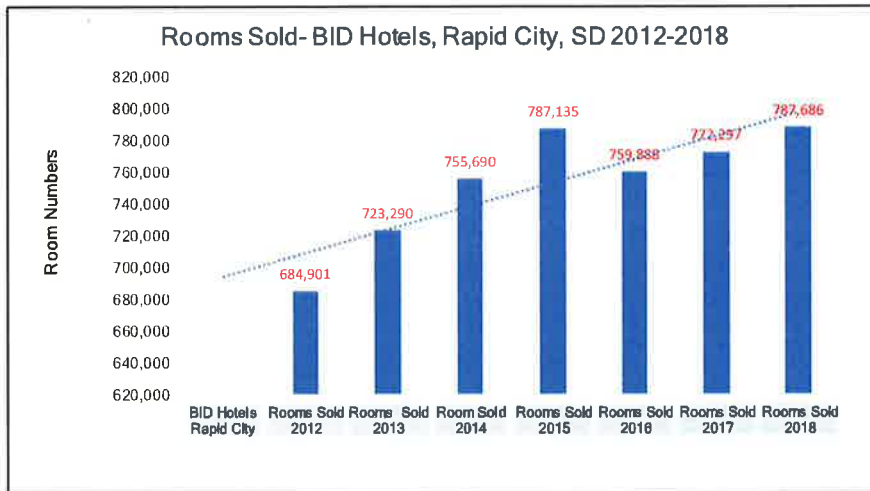
Rapid City itself maintains several statistics from its hotel business improvement district tax receipts. Commonly known as the BID tax, it is a \$2.00 per room-night tax on 34± local hotels with more than 50 rooms, totaling about 3,726± rooms.

The BID tax began in March 2006 by city ordinance. BID data on hotel rooms sold and rooms sold per month are produced in the next tables.

**Table 15**



**Table 16**



Three building permits were issued for new hotel construction in the Rapid City market area over the 2010-2012 periods, with one permit issued in 2013 and another in 2014. Two permits were issued in 2015, one permit in 2016, one permit in 2017 and one permit in April 2018 for a co-branded 228 guest-room Hampton Inn/Tru Hotels property. A second permit was issued in 2018 for a 97-guest room Best Western Plus. These hotels opened in May-June of 2019. Of these, almost all are limited service hotels located near Exits 60-61 in northeast Rapid City. Only the 99 room Holiday Inn Express & Suites, that opened in the spring of 2017 is in another location, at the intersection of Catron Blvd and Hwy 16.

Other hotel construction at Exit 61 includes the 144 room Residence Inn that opened in June 2015 and the 64 room My Place extended-stay hotel, also opened in the summer of 2015. Also opened in May 2017 is a Hilton Home2 Suites adjoining the Residence Inn. There is also a 174 room Courtyard by Marriott under construction next to the Residence Inn and a 97 room Best

Western Plus on the west side of Elk Vale Rd near Exit 61, both on the south side of I-90. The Courtyard will open in 2020, the Best Western Plus opened in May 2019.

A 102-room Staybridge Suites is another of the newest properties completed in northeast Rapid City, although between Exits 59 and 60 to I-90. It will be proximate to the new Hampton Inn of 120 rooms and /Tru by Hilton of 108 rooms, that just opened in June 2019.

There is no proposed or other in-pipeline hotel development proximate or elsewhere in the macro-market that we are aware of.

Following is a table of Rapid City BID hotel room sales by month and year over several years. Data are provided by Visit Rapid City and derived by the BID occupancy tax of \$2.00 per occupied room night.

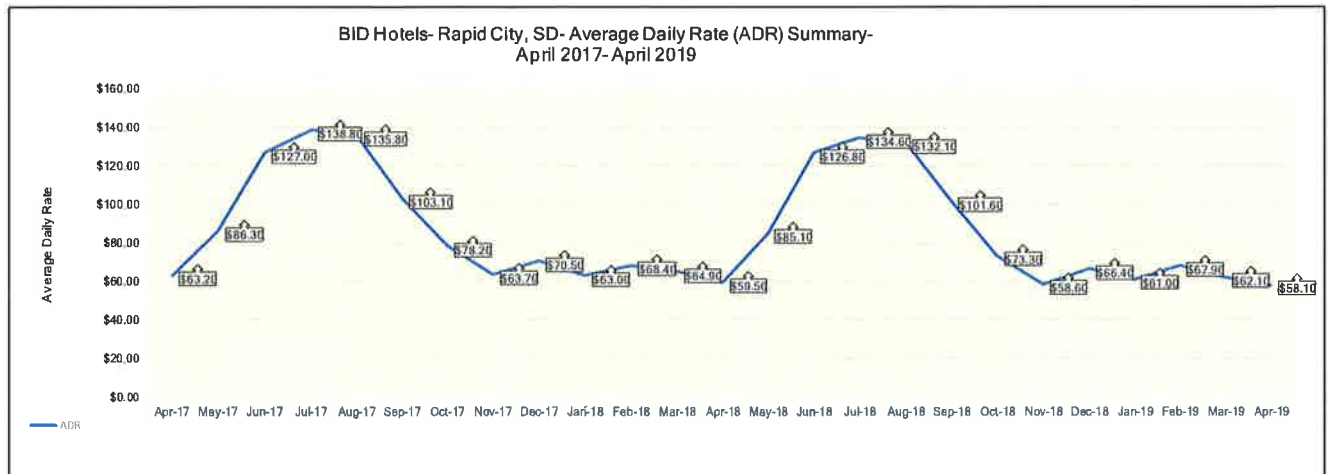
**Table 147**

Rapid City BID Hotel Room Sales By Month and Year													
Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Totals
Rooms Sold 2011	31,187	36,168	39,073	33,011	51,339	77,470	89,674	84,754	77,880	50,834	30,996	32,906	635,292
Rooms Sold 2012	31,646	41,562	44,554	36,420	58,276	83,626	97,590	87,761	80,724	53,077	33,388	36,277	684,901
Rooms Sold 2013	35,206	35,924	43,266	40,264	60,409	89,464	98,021	97,328	87,380	59,947	36,328	39,753	723,290
Rooms Sold 2014	33,531	46,502	44,444	44,169	69,193	93,010	104,272	99,034	87,193	60,605	33,924	39,813	755,690
Rooms Sold 2015	36,361	48,503	45,217	46,539	68,864	94,821	102,543	93,610	89,565	66,548	35,110	39,454	787,135
Rooms Sold 2016	36,839	48,421	47,799	46,215	70,054	92,383	99,365	89,137	89,553	64,480	36,421	39,221	759,888
Rooms Sold 2017	35,946	40,499	58,782	49,115	67,858	90,555	99,712	98,578	90,859	62,868	36,026	41,499	772,297
Rooms Sold 2018	33,873	47,865	50,168	42,784	73,455	90,576	105,996	96,615	92,879	70,243	41,314	41,918	787,686

Clearly illustrated in the table above, the Rapid City hospitality market area is closely aligned to summer tourism in the Black Hills. As noted in the BID Room sales, the summer tourism season begins in May and ends in September of each year, with occupancy the lowest in the November – April period of each year. This pattern of occupancy has been long-established and reflects the significance of the service sector economy of Rapid City and strength of summer tourism in the Black Hills.

The following graph of average daily rates (ADR's) by month from the BID hotels in Rapid City over the past two years. also illustrates the significance in room rates during the peak summer tourism months in each year.

Table 18



Anecdotally, most hotel and tourism related operators commented that 2018 was a “soft” year, which may also have accounted for slightly lower ADR’s reported in the hotel sector and observed in the competitive set properties and the subject. Clearly, weather, fuel prices, employment and other macro-trends affect summer tourism as well.



## MICRO-MARKET ANALYSIS AND TRENDS

The neighborhood, or micro-market for the subject Star Academy, is judged to be the town of Custer and the immediately surrounding area. Major employment, shopping and support services are in Rapid City. Custer is located 25 miles southwest of Rapid City, or 40 miles via Hwy 16. The subject is identified in the micro-map below.

Micro-Map



Generally, the shaded areas on the map are in public ownership. White or unshaded areas are private ownership.

Custer is a small summer tourism town with relatively few year-around employers. The population of Custer City in the 2010 US Census was 1,817 residents, although within 10 minutes of driving time of the city there are 3,026 residents reported in 2019. 2024 projections for the same area are 3,213 persons, or a 6.17% positive change rate. The community exhibits a strong tourism economy, particularly due to proximity to Custer State Park, reporting 1,800,000 visitors annually.

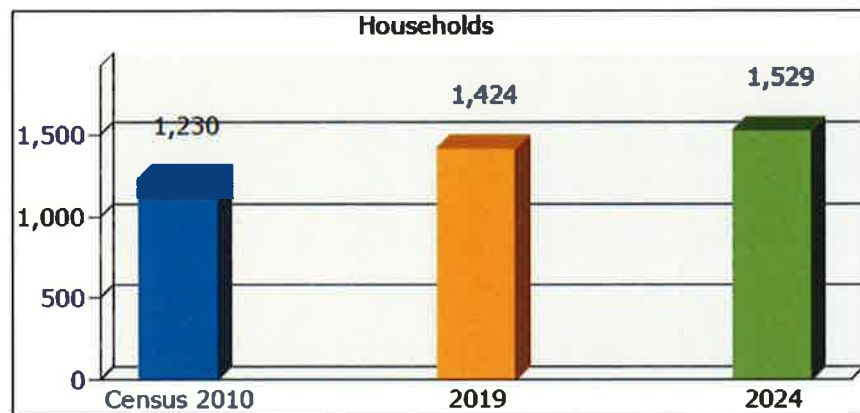
Custer itself has 10 hotels. Most are located approximately 1 mile west of Custer's central business district, with the exceptions of the Days Inn, the Econo Lodge, Rocket Motel, and Chief Motel. They are all limited service facilities, although the Bavarian Inn, Dakota Cowboy, and

Buffalo Ridge Inn, all have restaurants. There are 614 guest rooms in Custer. Only the Super 8 is open year-round, the remaining facilities are seasonal. The manager of the Super 8 has stated that he would close in the fall also, were it not for a franchise requirement that the hotel be open year-round.

Tertiary competition includes hospitality properties in Hill City, about 20 minutes to the north, lodging in Custer State Park and various resorts in the Black Hills within 15 minutes of Custer. Most are long-established and operate seasonally, or the May to October tourism season.

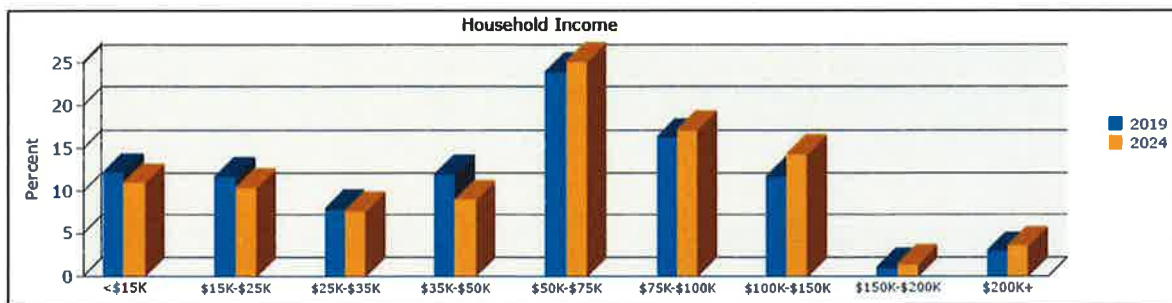
Households in and within 10 minutes of driving time of Custer are presented in the next table. (Source [www.stdbinc.com](http://www.stdbinc.com)) ESRI.

**Table 19 – Households within 10 minutes of Custer**



Household income in Custer is projected for the 2017-2022 period over the same 10-minute driving radius in the next table.

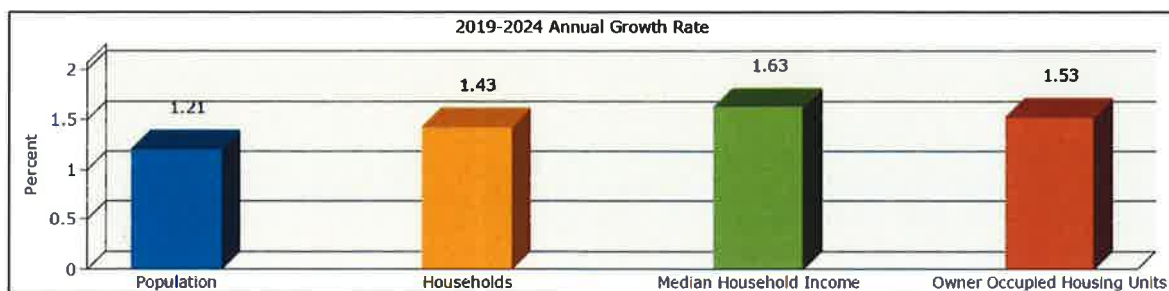
**Table 20 – Household Income within 10 minutes of Custer**



The commercial sector of Custer is in equilibrium with slow growth trends and adequate, although limited shopping and support services. Market conditions in the Custer area generally meld with the broader Black Hills and Rapid City markets. Custer is the county seat for Custer County and does have some local government and some federal agencies as year-around

employers although growth rates in population and households are low, as seen in the next table for 10-minute driving radius of Custer.

**Table 15 – Annual Growth Rates within 10 minutes of Custer**



While the severe national recession beginning in 2008-2009 did not impact Custer and the Black Hills nearly as much as other states and communities- it was noticed. In general, real estate sales activity was dampened and some submarkets. Developmental land and subdivisions essentially went dormant. There is some ongoing commercial activity with very little light industrial activity. Apartment occupancy rates are high, also a reflection of less multifamily construction after the national recession, resulting in some pent-up demand.

Transportation networks in the area are beneficial with Hwy 385 transecting Custer and the Black Hills north to south while Hwy 16/16A provides linkage to Custer State Park on the east and Wyoming, 30 miles west.

Typical for the greater Black Hills area, the micro-market area is dominated by US Forest Service land with scattered private land holdings, mostly along creeks and meadows. (Refer to the map on Page 32.) Topography is generally rolling hills transected by small streams and meadows. The elevation at Custer is 5,300 feet above mean sea level (MSL) with Black Elk Peak (former Harney Peak) the highest point in the Black Hills seven miles northeast of Custer at an elevation of 7,242 feet above MSL.

Utilities in the neighborhood are typical to the macro-market in general. Private and community water systems, individual septic systems, public electricity and private refuse services are the norm outside municipal services. Where private wells are not available, cisterns are used. Although cisterns are market accepted, their use generally results in some discounting of the property value compared to locations with community water or wells. Natural gas is generally not available; with propane meeting gas needs.

Since the 1990's, the growth of Rapid City, and the Black Hills tourism industry has resulted in moderate growth for Custer and the surrounding area. The Custer area benefits from a significant number of retirees moving into the Custer area. Some are "snowbirds" having winter residences in areas with more moderate climates. This also contributes to the seasonal economy

of Custer. Growth slowed considerably since the 2008-2009 recession and resulting credit restrictions. Micro and Macro market conditions are now stable to improving.

In summary, Custer with a year-around population of less than 2,000 (3026 residents within 10 minutes driving time of Custer), depends on summer tourism, local government and a small service sector. Population trends are 1.25% annually with household growth at 1.5% annually. Both are slightly above state and national rates. The proximity of Custer State Park and location on Hwy 385 tends to bolster summer tourism.

## **ZONING AND OTHER LAND USE REGULATIONS**

There is no zoning in Custer County. There is a subdivision ordinance which directs development and sets minimum guidelines for septic systems. Marketability of the subject is judged market neutral regarding zoning.

## **REAL ESTATE TAXES AND ASSESSED VALUATION**

The subject has never been taxed due to State (exempt) ownership. After the contract sale in May 2018 the Custer County Department of Equalization assessed the subject for the first time in 2019. Before taxes were levied on the subject the grantee defaulted on the contract for deed and the parcels reverted to State ownership. Assessments are shown in the table below. Two parcels are assessed at agricultural levels. One is assessed at residential – not owner occupied, and the remaining parcels are assessed at commercial levels. Average mill levy rates are obtained from the Custer County Auditor. We are informed that residential – non-owner occupied, and commercial rates are the same. The rates are applied in the table below. The result is an estimate of taxes if the property were held by the private sector. The resulting implied overall levy rate is 16.24 mills for the subject.

**Table 22 – Custer County 2019 DOE Assessments and Implied Taxes**

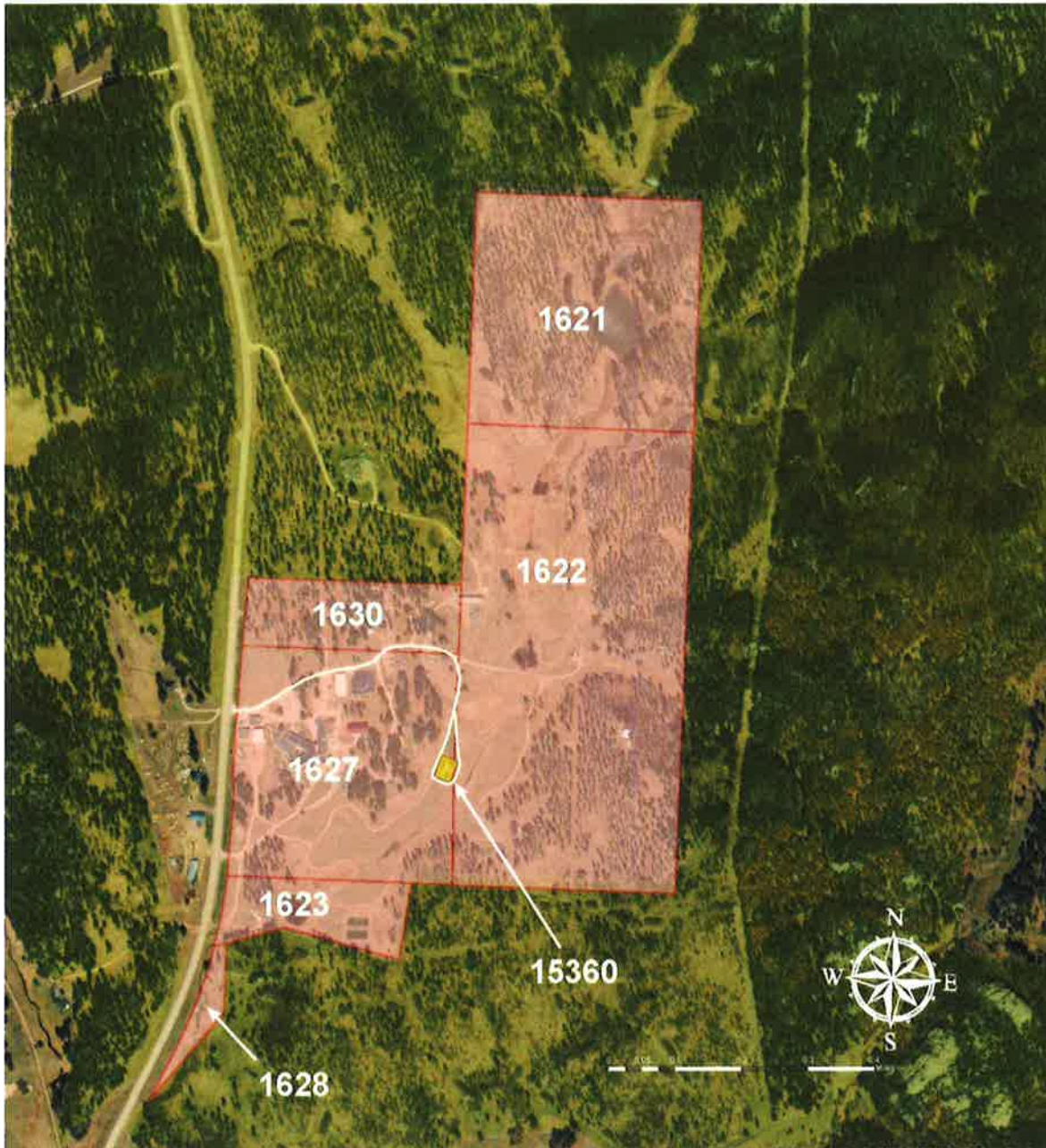
Parcel	Size (ac)	Assessment			Mill Levy	Resulting Taxes
		Land	Buildings	Total		
<b>Total</b>	<b>173.4</b>	<b>\$512,952</b>	<b>\$1,841,084</b>	<b>\$2,354,036</b>	<b>16.24</b>	<b>\$38,235</b>
1621	40.0	\$17,305		\$17,305	10.511	\$182
1622	80.0	\$41,238	\$63,965	\$105,203	10.511	\$1,106
1623	10.5	\$133,371		\$133,371	16.557	\$2,208
1627	31.3	\$171,586	\$1,487,256	\$1,658,842	16.557	\$27,465
1628	1.7	\$21,824		\$21,824	16.557	\$361
1630	10.0	\$127,628	\$289,863	\$417,491	16.557	\$6,912

To our knowledge, there are no business improvement district dues, association fees or similar expenses applicable, or anticipated to involve the subject.

A tax parcel map is presented next.



**Subject Parcel Map**



**Note: Parcel 15360 is the Cemetery Lot and is excluded from the assignment.**

## SITE DATA AND ANALYSIS

### *Location/Access/Visibility:*

The subject is four-miles south of Custer, fronting Hwy 385 on the east side. Travel time from Rapid City is approximately 50-60 minutes. The subject fronts Hwy 385 for approximately 3000 lf, although nearly 1000 lf of the frontage is Parcel 1628 which has an average depth from the Hwy 385 frontage of 125 lf. Visibility is very good from Hwy 385, however traffic counts in front of the subject are only 2398 vehicles per day, compared to 5870 vehicles per day on Hwy 385 north of Custer. The map below illustrates the location of the subject relative to Custer.

**Location Map**



### *Site Size and Shape:*

The site is irregular in shape, typical for Black Hills land. The site is approximately 2500 lf east to west at the widest point and 4000 lf north to south. Although the State's Request for Information brochure lists the site size at 182 acres, the total of the six Custer County tax parcels is 173.39 ± acres. We rely on the Custer County total as the best evidence of site size. The site is shown on an aerial photo on the following page.



**Aerial Photo of Subject**

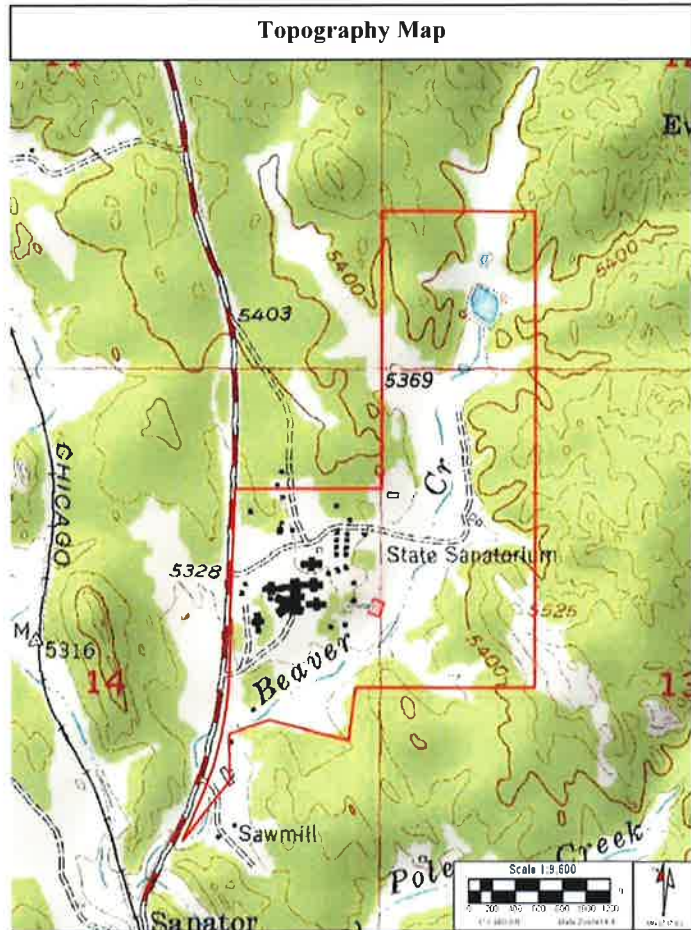


**Note – The Cemetery Lot in the center of the campus is excluded from the assignment. The white line on the photo above is a public access easement from Hwy 385 across the subject to the Cemetery.**

***Topography, Soils, Drainage, Cover:***

The subject is transected by an intermittent stream, the headwaters for Beaver Creek. Topography along the drainage way is gently sloping, north to south and moderate to steep laterally away from the center of the drainage. Away from the drainage, topography is rolling with slopes varying from 5-20% and slope lengths generally less than several hundred feet.

Soils appear typical to most in the neighborhood. Heavy buildings or multistory may require special engineering. The subject buildings show no signs of settlement which would indicate soil problems. However, we are not experts in soils and questions regarding the subject should be addressed by a soil engineer and a study conducted for verification if the client is concerned about soils.



Cover is a grass meadow near the center of the drainage with Ponderosa Pine forest away from the drainage. The stand has been recently thinned to improve health and resistance to Rocky Mountain Pine Beetle infestations.

***Water Features:***

There are several small ponds on the north portion of the subject. One has 1.4 acres of surface area, large enough to generate a positive effect on value. The photo at right is a south view with the north boundary of the subject just out of view at the bottom of the photo.





***Access:***

Subject access is via three approaches from Hwy 385. The subject is surrounded on three sides, except the Hwy 385 frontage, by US Forest Service land. There are several "two-track" roads providing access to and from the US Forest Service land. This is typical with none of the two tracks providing public access thru the subject onto/over USFS land. As noted, there is a permanent access easement to the small cemetery, judged neutral to marketability.

***Flood Hazard:***

The site is not in a flood hazard area. The subject is included on FEMA Flood Insurance Rate Map (FIRM) Panel #46033C0425F, dated January 6, 2012.

***Utilities:***

Infrastructure development is extensive on the subject, necessary to provide dependable utilities for all residents and staff. The following description of services is obtained from the State's Request for Information (RFI) / Redevelopment Opportunity, issued December 19, 2016.

***Electric:***

The subject is served by Black Hills Power and Light. There is also a 750 KV permanent standby generator with an automatic transfer switch. Except for the private residences, all areas of the campus are on backup power. Average monthly usage is reported at 135,000 kilowatts, excluding the private residences.

***Water:***

The complex is served by two water sources. One source is a deep well on the subject, drilled and placed in service in 1989. A second well is approximately 1.3 miles SW of the Star Academy Campus on another state-owned property. This well was placed in service in 2000 and water is piped from the well, across Forest Service land and Hwy 385 to a treatment plant. The water treatment plant has a capacity of approximately 108,000 gallons per day, or roughly a community of over 750 residents.

The treatment facility was updated in 2014. The treatment process includes filtration and chlorination. There are also treatments to prevent line corrosion and scale build-up, to improve the taste and control the odor of drinking water.

There are two water storage tanks. One is an elevated storage tank of 150,000 gallons. The second is a ground surface tank of 240,000 gallons. The 390,000 gallons of storage reportedly equals 3.6 days of capacity from the treatment plant when the facility is fully occupied and staffed.

The RFI also discloses that the 8" diameter riser to the overhead water storage tank may need replacing. If the 70-80 lf pipe does need replacing, cost is estimated at \$50,000.

***Sewer:***

Wastewater treatment is by a Packaged Orbital System, which utilizes an oxidation ditch and clarifier. The wastewater treatment plant was constructed in 1978 and updated in 2000 with the construction of two drying beds, a new control office/lab building and replacement of sludge pumps and lines. Average design flow is 27,000 gallons per day with a peak design of 65,000 gallons per day.

We are informed by Mike Morgan, Physical Plant Manager for the STAR Academy facility, that since closing, the very low flows into the treatment facility create maintenance issues. The result is the inflow is no longer in balance with the size of the system, creating freezing problems in the winter and excess algae growth in the summer.

***Phone & Internet:***

Phone and Internet service are provided by Golden West Telecommunications. Fiber optic service is provided with speeds up to 50 MB per second. The facility is wired throughout for a PBX system and is wired for intercom / paging throughout.

Verizon cellular service on the subject is unavailable, AT&T service is weak. There are Internet options available, but coverage is limited to Wi-Fi distance from the buildings. The lack of these services is adverse.

***Heating:***

The facility is serviced by three boiler systems. The primary system is a biomass fuels boiler. The 400 HP boiler went on-line in February 2008. The boiler is automatically fed from a 300-cubic yard / 60 dry ton wood-chip bin. When the bin is full it will provide heat and domestic hot water for approximately four days to two weeks, dependent upon weather and hot water use.

***Solid Waste:***

Garbage service is provided by Sanders Sanitation, a private company providing pickup transfer service throughout the Custer area.

***Natural Gas:***

Natural gas is not available, gas needs are met by propane and there are several local suppliers.

***Comments:***

Water, sewer, and heating services are atypical in the market. Similar services are only found in high-density developed areas where municipal services are not available.

As noted, we are informed by the client that all residential tenants have been ordered to vacate the residences by March 31, 2020. Water and sewer services, along with all other maintenance

activities will be suspended at that time. It is anticipated this will reduce holding costs for the State by several hundred thousand dollars annually. It is also expected to result in significant “startup” costs before water, heating and sewer services can be brought “on-line” again.

***Site Improvements:***

In addition to the city-like utilities described above there are an estimated 20,000 lf of roads: most are gravel; the main entrances are paved. An estimated 5000 lf are seasonal “two-track” roads. The RFI reports 127 paved parking spaces. There is an estimated 450 lf of 8’ high chain link confinement fencing. We estimate 1100 lf of 8’ high chain link containment fencing has been removed since sale in 2018. There are approximately 13,000 lf of perimeter livestock fencing. There are steel gates at each entrance from Hwy 385 which may be used to restrict automotive access.

***Sanator Cemetery:***

There is a cemetery on site that was used during the time the facility was a tuberculosis sanatorium. The cemetery is platted separately as “Cemetery Lot”, 11,656 ± sf or .27 acres in size. We are informed by the client that the cemetery will be held in State Ownership. The plat establishing Cemetery Lot also dedicates a 2708 lf public easement from Hwy 385 to the cemetery. The easement route is shown on the Aerial Photo on Page 38.



***Easements and Encumbrances:***

With the extensive utility development there are buried and overhead utilities throughout the subject. We are unaware of recorded easements protecting the infrastructure and not provided title insurance for this assignment as a reference.

The Cemetery Easement on Brady Drive for public access from Hwy 385 to the cemetery is mentioned in the above section.

There is a special use permit with the USFS covering the 3000 lf of waterline that conveys water from the State-owned property south of Carroll Creek Rd to the subject.

We are unaware of any other encumbrances not noted in the public record. However, as previously noted, we are not provided title insurance policy documentation that would uncover such issues if they existed.

***Surrounding Uses:***

There is a sawmill and a large tract residential site located across Hwy 385 from the subject. As noted, US Forest Service land borders the subject on all sides, other than the Hwy 385 frontage. The sawmill with its “teepee burner” and piles of lumber and machinery would be adverse for some proposed uses of the subject, although it is accepted, long-established and typical in the market area. The surrounding Forest Service land is judged positive as to marketability for the subject.

***Comments:***

The site is very large (in this submarket) with convenient paved access and surrounded by US Forest Service Land. It is well located being close to Custer and the source of some shopping and support services. Utility development is equivalent to city utilities except without a funding source for operation. We are informed by the Director of Operations for the subject that annual operating expenses exceed \$350,000. This maintenance expense borne by the owner effectively negates any benefit of “city utilities”.



## DESCRIPTION AND (SUMMARY) ANALYSIS OF THE IMPROVEMENTS

The subject is a campus of more than 27 building improvements. From 1996 to 2016 the complex has been operated by South Dakota Department of Corrections as a resident treatment center for adjudicated youth. Capacity of the facility is over 200 youth and staff. The youth were housed in a dormitory type facility with an attached food service building.

There are six buildings used for resident housing, feeding, education, recreation, correction and administration of the youth. There are an additional 10 buildings used for utilities and maintenance of the facility. There are 11 single family residences used for staff housing. At the time of sale in 2018 the buildings were well maintained and in fair to good condition. There has been some physical deterioration and noted deferred maintenance since the 2018 Sale.

The aerial photo below displays the building improvements and location.

**Aerial Photo of Buildings**



Not pictured are the water treatment building, located east of the above photo and the wastewater treatment building, located south of the photo above. North is to the top of the photo.

**Main Buildings Inventory**

Item	Administration Building	Annex	Main Building	Food Service / Dining	Brady Academy	Gymnasium
Year Built	1910	1925	1963	1990	1996	1997
Building Class	Class C	Class C	Class C	Class C	Class C	Class S
Size/ Gross Building Area (GBA - sf)	9,042	16,006	50,262	10,968	19,924	6,552
Footprint	4,814	10,918	18660	10,968	15,948	6,552
Basement (sf)	4,814	8,562	0	0	0	0
Foundation	Basement	basement	Slab	Slab	Slab	Slab
Condition	Poor-Above Average	Very Poor	Very Poor	Average to Below Ave	Below Average	Below Average
Stories / Wall Ht	2	2	3	1	1	3
Roof	Tile	Membrane	Membrane	Membrane	Membrane	Membrane
Rooms	13 +	> 15 Classrooms	> 50 dorm rms & showers	Kitchen & Dining Areas	>20	1
Exterior Walls	Drivit	Brick	Brick	Brick	Brick	Metal
Floor Finish	Carpet & Polished Granit	Linoleum or Unfinished	Tile & New Carpet most areas	Linoleum Tile	Mostly Finished Concrete Some Carpet	Rubber Tile
Insulation	Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
Ceiling	Drywall & Acoustic Tile	Varies- Mostly Drywall	Painted Drywall	Acoustic Tile	Drywall	Sheeted Insulation
Interior Walls	Wood Paneling & Drywall some Masonry	Drywall	Painted Drywall	Painted Drywall	Painted CMU	Padded Panels
Doors	Wood	Wood	Wood	Metal	Wood	Metal
Windows	Vinyl & Wood Casement (new)	Vinyl & Wood Casement - Most new	Vinyl clad (new)	Aluminum	Aluminum Cased Open Community	Aluminum Cased
Plumbing	Typical	Typical	Community Showers	Typical	Showers & Restrooms	Unisex Restrooms
Fire Suppression	Wet	Wet	Wet	Wet	Wet	Wet
HVAC	Hot Water	Hot Water & Wall Mounted	Hot Water	Hot Water & Rooftop	Wall Mounted	In Floor
Electric Wiring	Typical	Typical	Typical	Typical	Typical	Typical
Layout	Typical Office	Trades & Classrooms	Dorm Room	Typical Food Service	High Security Area	Open Basketball Court
ADA Compliance	Unknown	Unknown	Unknown	Unknown	Unknown	Unknown
Depreciation / Age / Condition	Average +/-	Fair	Fair	Average	Average	Fair

These six buildings have a GBA of 112,754 ± sf, not including 13,376 ± sf of basement space in the Administration Building and Annex. The Administration Building is an average to good condition office building with new windows. The Main Building is the dorm residences. Significant functional obsolescence exists in the building for any other use. The Brady Academy is essentially a detention facility with significant functional obsolescence. The Annex is a shop / classroom wing for education of the residents. Condition of most rooms in the Annex is fair to average. The Food Service Addition is typical with extensive FF&E. The Food Service facility appears to be "turnkey" in good to very good condition.

**Utility / Maintenance Buildings**

<b>Building</b>	<b>Year Built</b>	<b>Building Class</b>	<b>Gross Building Area (GBA - sf)</b>	<b>Depreciation / Condition</b>
Maintenance Bldg.	2014	Class S	6,480	Average
Water Treatment Bldg.	Updated 2014	Class D	840	Average
Wastewater Treatment Bldg.	1978 / 2000	Class D	308	Average
Generator Building	2009	Class D	392	Average
Laundry/Garage	1920	Class D	6,144	Fair
Powerhouse	1920	Class C	5,096	Fair
Biomass Bldg.	2008	Class S	3,708	Average
Welding Shop	Estimate 1990	Class S	1,360	Average
Barn	Estimate 1920	Class D	5,016	Fair
Ground Shed / Storage	1920	Class D	3,936	Fair

Total GBA for the maintenance buildings in the above table is 33,280 sf.

**Residences**

<b>Item</b>	<b>Year Built</b>	<b>Condition</b>	<b>Size (sf)</b>	<b>Basement</b>	<b>Bedrooms</b>	<b>Baths</b>	<b>Deck</b>
12284 Brady Drive	1920	Poor	2008		4	2	
25520 Tower Drive	2013	Average	1104	1104	4	2	244
25521 Tower Drive	2000	Average	1008		2	1	100
12291 Jack O'Connor Ln	2010	Average	1104		3	1	164
12293 Jack O'Connor Ln	2011	Average	1104		3	1	168
25528 Upper Staff Lane	1920	Poor	904		2	1	
25530 Upper Staff Lane	1920	Fair	912	768	2	Shower	218
25534 Upper Staff Lane	1920	Fair	1101	135	2	1	
25536 Upper Staff Lane	1920	Fair	1062	918	2	1	
25540 Upper Staff Lane	1920	Average	2288		5	1.5	340
25554 Upper Staff Lane	1920	Average	1136	896	3	1	

Total gross living area (GLA) for the residences in the above table is 13,731 sf. Basement space is not included in the GLA calculations

Note: the building sizes in this report are slightly different than in the previous report. The changes are a result of more accurate data available for this report than was available in the Request for Proposals publication relied on in the previous report. The largest difference is a significant amount of basement space that was reported in the RFP as contributing to the Gross Building Area (GBA). Basement space is not typically included in GBA but reported separately.

**ANNUAL OPERATING EXPENSES:*****Prior to 2018 Sale***

We were provided with the 2017 annual operating expenses of the facility by Ms. Candy Snyder, Director of Operations for the South Dakota Department of Corrections. They are shown in the table below.

Item	Annual
Ecolab Pest Elimination	\$ 1,745
Elevator Inspection & Maint	\$ 36,180
Equipment Services & Maint	\$ 10,000
Electricity	\$ 115,000
Bldgs & Gnds Supplies	\$ 65,000
Power Plant Supplies	\$ 1,000
Propane	\$ 32,190
Wood Chips & Biomass maint	\$ 90,000
<b>Total OE</b>	<b>\$351,115</b>

Ms. Snyder informs us they generally maintained five employees as maintenance staff, as well as using inmate labor extensively for lawn care, etc. There are also many other costs reported, although not shown; operator certification courses required every 3-5 years, hauling away sludge from the drying beds, soil samples from the land where sludge was applied, etc.

***After 2018 Sale***

Since sale in 2018 there has been almost no maintenance on any of the infrastructure or vertical building structures. Mr. Mike Morgan, head of maintenance, reports over \$75,000 of deferred maintenance on the water and sewer systems. Freeze-thaw action resulting from no heat in the buildings has much of the interior paint cracking and peeling off the walls. Some water lines froze and broke, creating notable water damage.

Our instructions from the client are to presume the facility, all water, sewer and heating systems, are completely shut-down with no maintenance. It is unreasonable to presume that after a period of inactivity and nonuse the buildings and infrastructure will be in the same condition as prior to the 2018 sale. Physical deterioration is significant and will be increasing without offsetting maintenance and repairs.

The State does not pay taxes on the property but if in the private sector based on 2018 assessment levels and reported mill levies taxes on the subject would be \$38,000 annually.



## BUILDING IMPROVEMENT PHOTOS:

### Administration Building, Annex, and Main Buildings



The Administration Building is in the foreground, the Annex behind the Admin Building. The welding shop is to the right with the purple metal roof. The Main Building is the 3-story V-shaped residential hall to the left. The red metal building in the left background is the Biomass Building.



The Food Service Addition is the single-story portion in the foreground. The Main Building is the V-shaped 3-story residence hall.



**Typical office in Administration Building**



**Lobby Area of Administration Building**





**Auditorium in Annex**



**Typical Dorm Room Space in Main Building**



**Typical Restroom in Main Building**



**Water damage from burst pipe on 3<sup>rd</sup> floor.**



**Typical Annex Space After Tenant Vacating**



**Eating Area in Food Service Building**





**Typical Kitchen Equipment in Food Service Building**



**South Elevations of Biomass Building (right) and Power Plant (left) Buildings. Laundry Building is partially visible in rear of Biomass Building.**



**West Elevations of Laundry Building (left of red building) Generator Building (small building in left foreground) Power Plant (right foreground) and Biomass Building (red metal building with white roof to the rear of the Power Plant Bldg.)**



**Typical laundry equipment – removed in 2018.**





**Biofuels storage**



**One of multiple boilers**



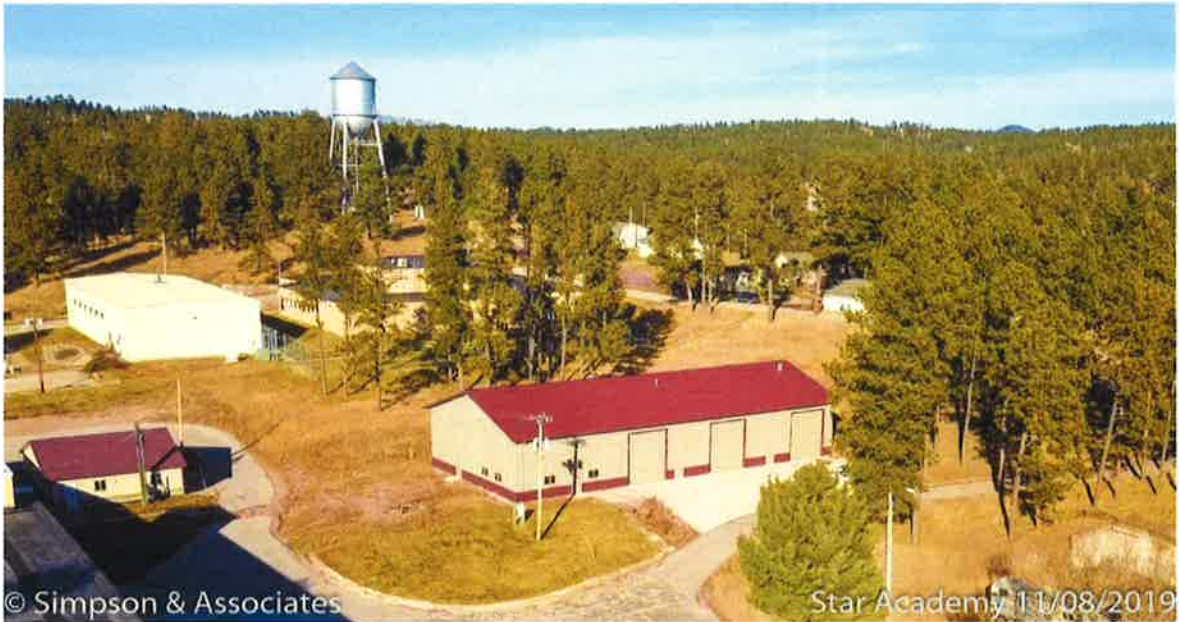


**Interior paint peeling due to freeze-thaw action from no heat in building.**

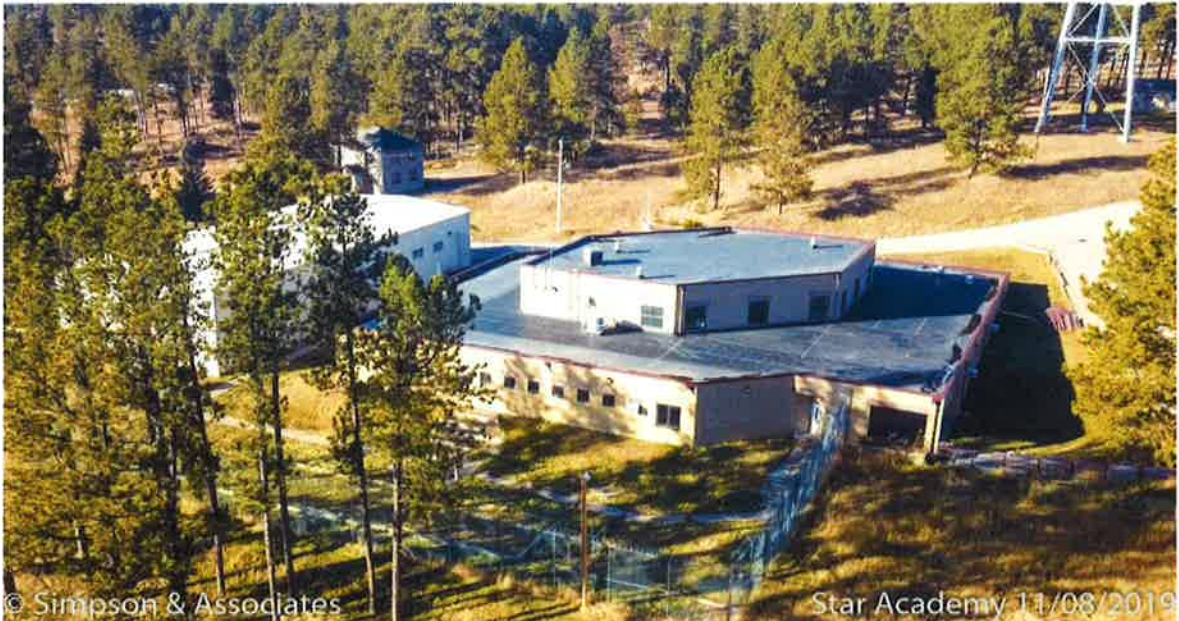


**Freeze-thaw action on tile in boiler building.**





**2014 Era Maintenance Building on right, Welding Shop on left and Gym in the background.**



**Brady Building on right, Gymnasium on left**



**Gymnasium**



**Brady Building Interior**





**Brady Building Restroom & Showers**



**Barn**





**Storage Building**



**Well House and Storage Tanks at top of hill**





**Waste-water treatment plant**



**Drying beds for the waste-water system**





Typical 1 of 4 2000-2014 Era Staff Housing



Typical 1 of 7 1920 Era Staff Housing

#### COMMENTS:

The building sizes reported in this report are obtained from the Custer County Director of Equalization records. The subject, while operating, was essentially a community of approximately 260 people; 200 residents with staff of over 60 employees. Living space, water, food service, laundry, sewer, heat and power for this population are all significant undertakings.

The building improvements and supporting infrastructure on the subject are significant, approximately 160,000 ± sf in total. Building age varies from five years to over one-hundred years. Although the buildings were well maintained while operated by the State, maintenance activities came to a standstill after sale in 2018 and deferred maintenance is accumulating. The facility, being closed, will result in additional maintenance issues for buildings and utility services.



## PART THREE: ANALYSIS AND CONCLUSIONS

### HIGHEST AND BEST USE ANALYSIS

Highest and Best Use<sup>1</sup> is defined as:

1. The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.
2. The use of an asset that maximizes its potential and that is possible, legally permissible, and financially feasible. The highest and best use may be for continuation of an asset's existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid. (IVS)
3. [The] highest and most profitable use for which the property is adaptable and needed or likely to be needed in the reasonably near future. (Uniform Appraisal Standards for Federal Land Acquisitions)

### FUNDAMENTALS OF HIGHEST AND BEST USE<sup>12</sup>

“The analysis of highest and best use is at the heart of appraisals of the market value of real property, but the concept has not always been well understood by practitioners and has long been a source of debate in the professional literature. The essential components of the analysis of highest and best use are contained in the following definition of the term:

*The reasonably probable use of property that results in the highest value.*

To be reasonably, probable, a use must meet certain conditions:

- The use must be *physically possible* (or it is reasonably probable to render it so).
- The use must be *legally permissible* (or it is reasonably probable to render it so).
- The use must be *financially feasible*.

Uses that meet the three criteria of reasonably probable uses are tested for economic *productivity*, and the reasonably probable use with the highest value is the highest and best use.”

### HIGHEST AND BEST USE OF LAND AS THOUGH VACANT<sup>13</sup>

“If land is valued as though vacant in an appraisal assignment – for example, if the cost approach is applied in the assignment, requiring an estimate of land value – then a conclusion of the highest and best use of the land as though vacant is

<sup>1</sup>“The Dictionary of Real Estate Appraisal, Sixth Edition,” Appraisal Institute, 2015, page 109.

<sup>12</sup> The Appraisal of Real Estate 14<sup>th</sup> Edition, page 332.

<sup>13</sup> The Appraisal of Real Estate, 14<sup>th</sup> Edition, page 338.

needed. When land is already vacant, an appraiser values the land as it exists, i.e., as vacant. When land is not vacant, however, the land's contribution to the value of the property as improved depends on how the land could optimally be used. Therefore, the highest and best use of land as though vacant must be considered in relation to its current use and all potential alternative uses."

#### ***Legally Permissible Uses of Land as Though Vacant***

- *Legal permissibility is typically considered as zoning and other land use regulations by market participants.*

The first step is legal permissibility, normally considered as zoning. There is no zoning in rural Custer County, although there is a subdivision ordinance that directs development to some degree. There is significant utility development in/on the subject. While there are relatively few recorded easements, existence of these utilities, overhead and underground, will certainly have an impact on use and further development. We are unaware of other public or private legal issues that would affect the legal permissibility of the site, other than the previously discussed powerline easements. As reported, we are not supplied with title insurance that could uncover other factors regarding these issues that are beyond the scope of work for this appraisal.

No restrictions are known that would prevent local governmental offices from allowing construction on the site.

#### ***Physically Possible Uses of Land as Though Vacant***

- *The physical possibilities of the vacant land are quickly constrained by factors such as site size, shape, frontage, availability of utilities and other services, topography, soils and other site conditions and environmental factors.*

The second test is physical possibility. The site is very large in size, relative to other sites in the submarket, with mostly usable topography. Although the site has all utility services, without government/institutional ownership and use, they do not have the "economy of scale" to be financially feasible. Annual maintenance expenses for the facility, mostly for utilities, of \$350,000 ±, is clearly not financially feasible.

The site has access with extensive interior roads and the little-used permanent access to the small cemetery. There are no apparent soil problems that would prohibit building. We are unaware of any environmental hazards associated with the subject including but not limited to the cemetery and waste water treatment facility, or in the area in proximity, although we have not been provided a Phase One Environmental Audit that would uncover such issues, if they existed.

As the site is physically possible and legally permissible to build upon, the next step is financial feasibility, or alternatively demand. Here we consider the types of improvements that pass the first two tests to weigh financial feasibility.

***Financially Feasible Uses of Land as Though Vacant***

*Uses that are not eliminated in the preceding two tests are next analyzed for financial feasibility. For a use to be financially feasible, it must be able to produce a positive return to the land after considering risk and all costs to create and maintain the use.*

The purpose of the test of financial feasibility is to determine if market conditions are adequate to justify the use of the property in a legally permissible and physically possible manner.

Measuring financial feasibility can be indicated through market analysis. Essentially all land sales within the immediate market area were purchased for large tract residential use. These sales are referred to as 'end-user' sales, in which the buyer intends to occupy and use the land or building facilities for his or her own purposes. This is an important consideration in measuring financial feasibility since end-users base their sale price on the property's productive capacity rather than on the interest of holding the investment with the hope of selling at a profit in the future. Typically, sales to end-users imply that the use is financially feasible to the end-user.

***Maximum Productivity of Land as Though Vacant (Highest Relative Value Considering Risk)***

- *Of the financially feasible uses of the land as though vacant, the highest and best use is the use that produces the highest residual land value, all else being equal.*

If the appraiser(s) concludes that a building improvement is appropriate for the highest and best use of a parcel of vacant land, the *ideal improvement* should meet the following criteria:

- It takes maximum advantage of the potential market demand for the site's highest and best use.
- It conforms to current market standards and the character of the market area.
- It contains the most suitably priced components.

The fourth test of highest and best use as if vacant, is maximum profitability. This test normally considers which of the uses that is physically possible; legally permitted and financially feasible, is the most profitable. Only one use, large tract residential use, survives the financial feasibility test, rendering the maximum productivity test unnecessary. The maximally profitable use of the subject, as though vacant, is large tract residential.

## **HIGHEST AND BEST USE, OF PROPERTY AS IMPROVED<sup>14</sup>**

“The concept of highest and best use of property as improved pertains to the use that should be made of an improved property in light of the existing improvements and the ideal improvement described at the conclusion of the analysis of highest and best use as though vacant. In market value appraisals of improved property, appraisers consider a number of alternative uses of the existing improvements:

1. Demolish the existing improvements and redevelop the site.
2. Convert, renovate, or alter the existing improvements to enhance the current use or change the use of the property to a more productive use.
3. Retain the existing improvements and continue the current use. The existing improvements could possibly represent an interim use that helps defray the cost of carrying the property and demolition costs until approvals have been obtained and actual construction may begin.

The principle of consistent use holds that land cannot be valued based on one use while improvements are valued based on another. An improved site is always valued as though vacant and available for its highest and best use. Existing improvements that do not conform with the ideal improvement may be an interim use (i.e., not the highest and best use) that contributes some value or no value or even reduces value if the costs to remove the improvements are substantial.”

### ***Testing Alternative Uses of the Property and Financial Feasibility as Improved***

All four tests of highest and best use are relevant to the analysis of the property as improved. Physical possibility and legal permissibility are again the first tests. Clearly, the subject as improved is legally permitted and the improvements can (and do) exist. There are some repair issues mentioned by the on-site manager; and noted in the STAR Academy Request for Information Report and referenced in other places in this report. The noted repairs are not viewed as prohibitive to the current use.

The next test is financial feasibility which considers the subject as currently improved and to consider what changes, if any, are needed to obtain highest and best use.

In the upcoming Sales Comparison Analysis section, we conclude vertical improvements contribute \$4.00 per sf over the underlying land value.

We have documented demolition costs for a school building in Pierre, SD containing 24,750 sf of \$130,260 or \$5.26 per sf. This is typical in the market and we have no reason to believe

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<sup>14</sup> The Appraisal of Real Estate, 14<sup>th</sup> Edition, Page 345.



demolition cost for the subject would be less. Costs could easily be more, given the extensive utility development of the subject and depending on transportation cost of the rubble. With cost to clear the subject being greater than the existing contribution of the improvements, highest and best use for the subject is to hold the improvements in their unused status pending demand or an alternative use that justifies demolition. It would be more costly to demolish the existing improvements than their contribution to property value.

## **APPRAISAL PROCESS SUMMARY**

Not all the traditional approaches to market value are applicable in each appraisal assignment. This may be due to lack of pertinent market data or directed by the motivations and activities of market participants.

There are multiple reasons why no market participant would use the cost approach as a market value indication. There is physical deterioration, external and functional obsolescence in each building. The amount and percentage of depreciation from each source varies. Depending on the proposed use of the subject, some buildings may have some economic utility. Other buildings are worth little more than storage. Some buildings have utility and other buildings contribute only as a shell. The cost approach is not applicable to the subject and estimating depreciation is speculative. We mirror the market and omit the approach from development.

Further, the income approach is not applicable to the subject analysis. Although there are single family residences currently generating income, if there were 100% occupancy on all units, they still fail to produce one third of the amount of the current annual property operating expenses. There is no economically feasible demand discernible for the subject and there is no market evidence to develop the income approach. We are informed that currently only 3 units are occupied, and all will be vacant March 31, 2020 or earlier.

We searched on a regional basis for sales comparable to the subject. Although the subject is unique in the market, by expanding our search to a multi-state region, we identified several sales of facilities with varying similarity to the subject. Site value varies greatly between sales, as does various other factors. We analyze the sales by deducting the land contribution from each sale and extract a residual improvement contribution, per sf, from the sales for analysis.

It is necessary to begin the analysis of the subject with land valuation.

## LAND VALUATION

The relationships that create value are complex. Typically, four interdependent economic factors create value; utility, scarcity, desire and effective purchasing power. All four factors must be present for a property to have value. The complex interaction of the four factors that create value is reflected in the basic economic principle of supply and demand.

The procedures used to value land<sup>1</sup> are:

- Sales comparison
- Market Extraction
- Allocation
- Income Capitalization Methods

All procedures are derived from the three basic approaches to value. Sales comparison and income capitalization (i.e., ground rent capitalization) can be directly applied to land valuation. Allocation and extraction procedures reflect the influence of the sales comparison and cost approaches. The land residual technique is based on the income capitalization and cost approaches. Subdivision development (discounted cash flow analysis) draws on elements of all three approaches.

Of the recognized method to value land, a sales comparison approach is developed in this assignment. We searched the Black Hills MLS database, Director of Equalization (DOE) records, contacted Realtors, other market participants, and contacted other appraisers for land sales in the vicinity of the subject. We identify seven sales to compare to the subject. The unit of comparison is price per acre.

Qualitative analysis is required in this assignment. Due to disparities in physical and location characteristics involving the comparables and the subject; the limited quantity of sales and differences between the sales themselves- adjustments warrant qualitative analysis.

A Qualitative Analysis<sup>15</sup> is defined as:

In the sales comparison approach, the process of accounting for differences between comparables that are not quantified; usually follows quantitative adjustment.

We begin our analysis with a brief description of each sale.

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<sup>1</sup>"The Appraisal of Real Estate," 14th Edition, Appraisal Institute, 2013, page 365.

<sup>15</sup> "Dictionary of Real Estate Appraisal," Fifth Edition, Chicago: Appraisal Institute, 2010

### *Comparable Land Sales Descriptions*

#### **Land Sale #1**



**Note: The scale bar is accurate, however the 1"= XXX may vary due to changes in photo size from original. Shaded areas represent USFS land.**

This October 2018 sale is located 1.7 miles NE of Custer on Willow Creek Rd and 5.7 miles (direct distance) NNE of the subject. The property is generally meadows with the property line very near the timber line on all sides. It is almost entirely surrounded by USFS land and is near the end of the Willow Creek Rd. The property fronts the Willow Creek Rd for approximately 1/4 mile. The seller received a full price offer after only 30 days of market exposure. The buyer is from Rapid City and he intends to eventually improve the sale with a residence. It has springs and a small pond.

The sale is without vertical improvements. It is ranked slightly superior to the subject due to smaller size and slightly inferior to the subject due to utilities and gravel access. The sale price was \$500,000 providing a value indication of \$8727 per acre- overall rated slightly superior to the subject.

## ***Land Sale #2***



**Note: The scale bar is accurate, however the 1"= XXX may vary due to changes in photo size from original.**

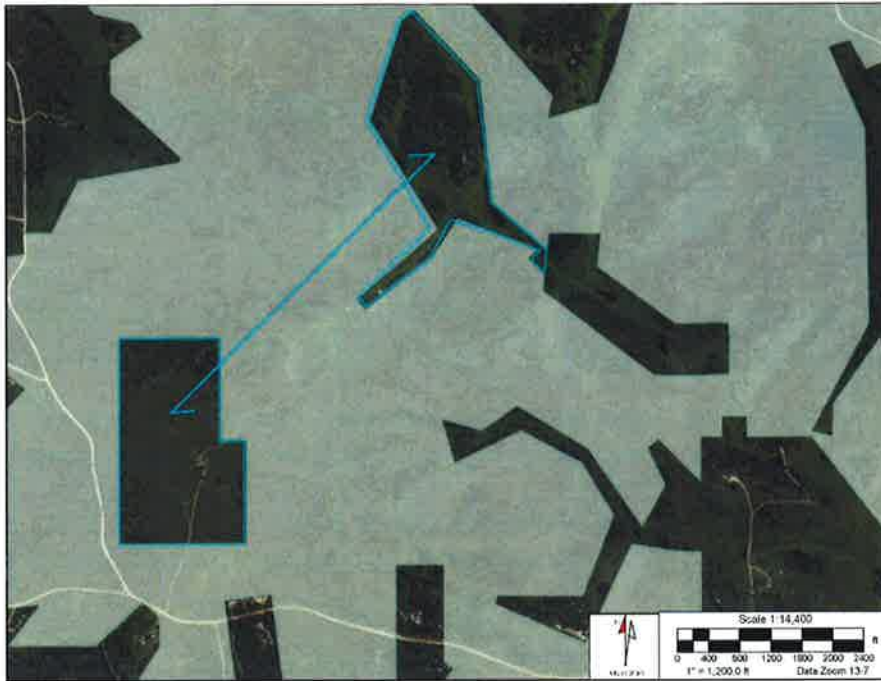
This sale was owned by a family in California that had been trying to sell the property since 2006 or earlier. The sale is 66.21 acres of land south of Hwy 16 West and west of Hwy 385 South. At the time of sale, it was improved with Flintstones Bedrock City, a local tourism attraction and campground themed around the Hanna-Barbera cartoon. It was initially improved with Bedrock City in the late 1960's and has operated as a theme park and campground for over 40 years. Although the improvements are extensive, they made no contribution for the buyer and the theme park did not operate in 2016.

The buyer is a local entrepreneur with hotel holdings as well as several single family developments in Custer and Rapid City. The buyer and seller had been negotiating for a decade or more by the time this transaction was completed. Purchase motivation was for eventual improvement with a hotel and possibly a housing development in the distant future. Short term motivation was protection of existing property interests of the buyer, in and around Custer.

The sale received no market exposure. The land was the subject of a 2012 appraisal by Simpson and Associates for the seller with specific instructions to exclude all site improvements and building improvements. The sale price was \$1,035,000 or \$16,637 per acre, rated significantly superior to the subject for location, access, frontage, use and city utilities.



### ***Land Sale #3***



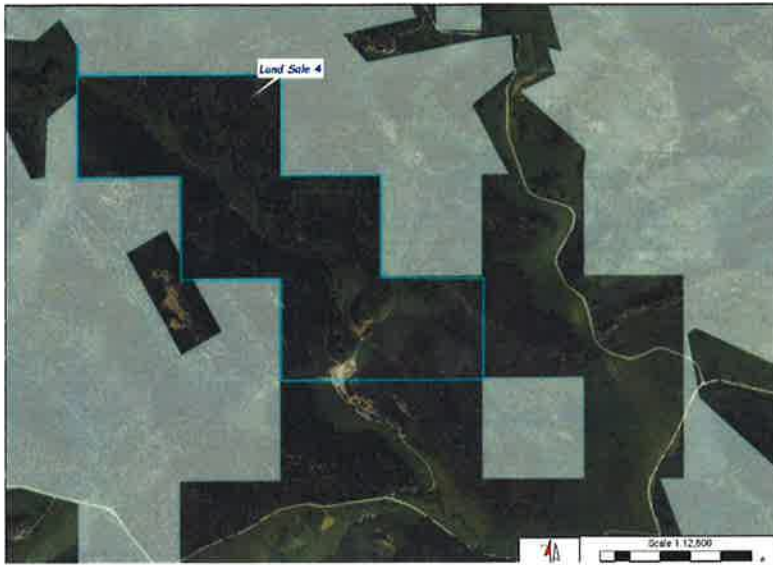
**Note: The scale bar is accurate, however the 1" = XXX may vary due to changes in photo size from original. Shaded areas represent USFS land.**

This November 2019 sale is located approximately 4.5 miles NW (direct distance) of Custer and 26.5 miles SW (direct distance) of Rapid City. It is the purchase of 165.3 acres for \$800,000 or \$4840 per acre after 164 days of MLS exposure. It is improved with a summer camp facility. Electricity and telecommunications are on site. The sale has several wells for domestic water and private septic systems meet sewer needs.

Small springs on the NW parcel are the only water features. Views are better than average, but sight distances are limited. Aesthetics are good due to a mix of meadows and timber. Both tracts are completely surrounded by USFS land. Access to the SW parcels is via 900 lf of dirt road from the Custer Limestone Rd. It is approximately another mile of USFS dirt two-track trail to the NE parcel. Winter access will be difficult at times.

The sale consists of two non-contiguous parcels, currently used jointly as a summer camp for junior and senior high school youth. The owner/operator is a church without profit motivation. The subject improvements are aged and atypical with significant physical deterioration and external and functional obsolescence. The buyer intends to remodel the kitchen / dining facility into a residence. The listing Realtor commented that the existing improvements made a minor contribution to value. We adjust the sale price downward \$55,000 for the improvement contribution, resulting in a value indication of \$4507 per ac, rated significantly inferior to the subject.

#### **Land Sale #4**



**Note: The scale bar is accurate, however the 1"= XXX may vary due to changes in photo size from original. Shaded areas represent USFS land.**

This August 2017 sale is located approximately 30 miles SE (direct distance) of Rapid City. It is the purchase of 240 acres for \$1,150,000 or \$4791.67 per acre after 30 days of MLS exposure. It is improved with a small KOA type camping cabin. The cabin is without electricity, telecommunications, water or sewer. Building contribution is estimated at \$22,000.

Electricity and telephone are 1/2 mile south at the Beaver Creek Rd. The sale does not

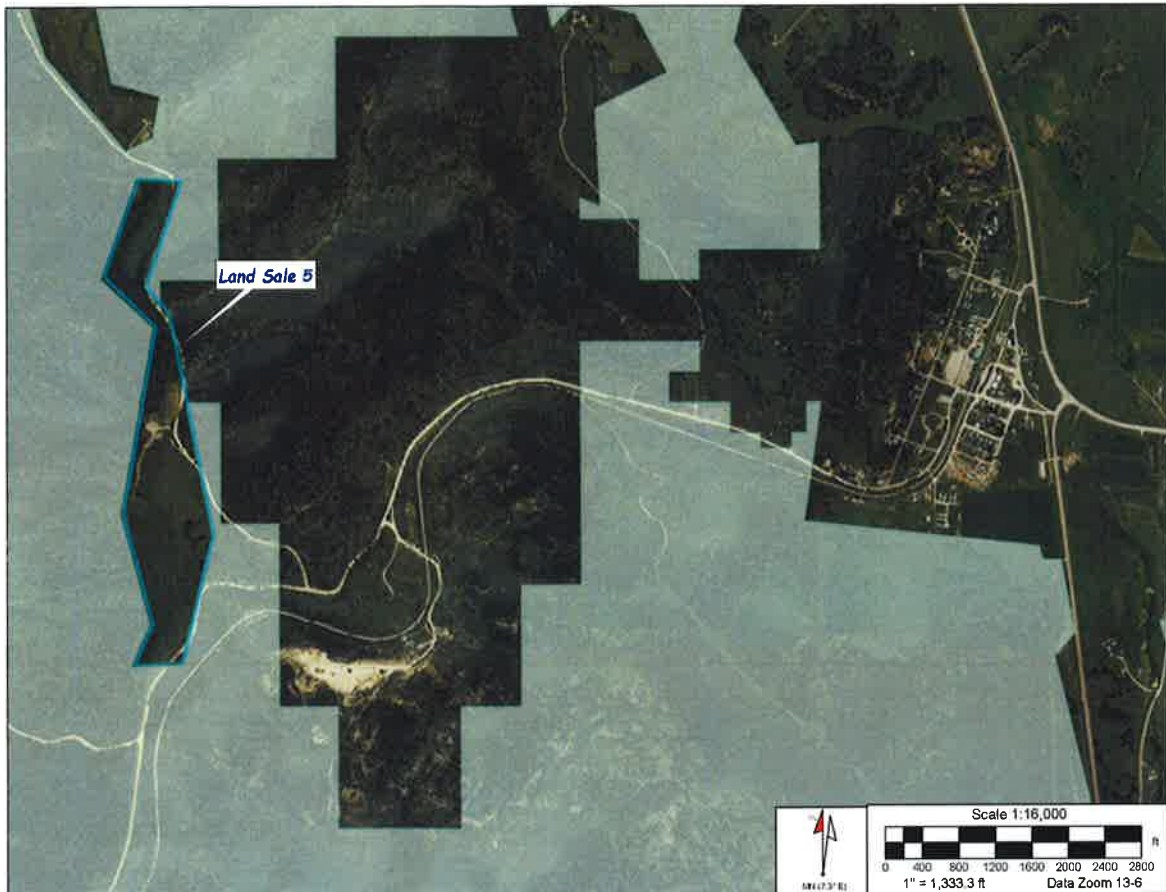
have domestic water or sewer. Access is via 1/2 mile of dirt "two-track trail" from Beaver Creek Road across private property via easement. Access is also seasonal with some periods of the year access via over snow terrain equipment only. The property is centered on narrow meadows accompanying and intermittent stream with steep timbered slopes on both sides.

There is a small spring on the property with a very small unnamed stream with flows of 1 cubic foot per second (c.f.s.) or less. Views are rated good although there are no vista views from the meadows. Slopes from the creek bottom are generally less than 1/4 mile in length with 500 ft +/- rise in elevation. Slopes range from 20-40%. There are very good vista views from the ridge tops but they are only accessible by foot. Elevation ranges from 4640 feet above Mean Sea Level (MSL) to 5220 feet above MSL.

Aesthetics are rated very good due to the mix of meadows and timbered slopes. The listing mentioned the property was large enough to qualify for land owner preference for SD elk licenses. The sale is located 1 mile from Wind Cave National Park and Custer State Park with US Forest Service land bordering on the NE and SW. The sale is clearly a recreational property.

The listing Realtor reports normal sale conditions. There are active mines on the property although they made no contribution to value. After a downward adjustment of \$22,000 for improvement contribution the sale produces a value indication of \$4700 per acre, rated significantly inferior to the subject.

### ***Land Sale #5***

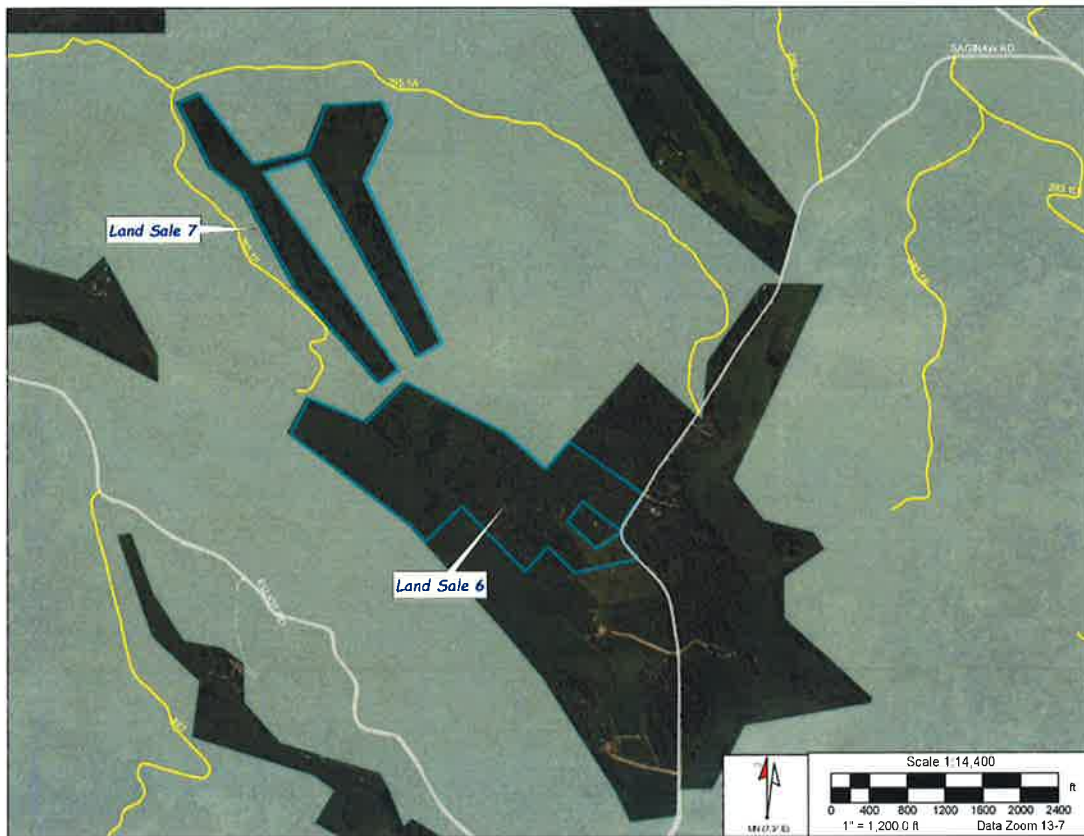


**Note: The scale bar is accurate, however the 1"= XXX may vary due to changes in photo size from original. Shaded areas represent USFS land.**

This January 26, 2017 sale is approximately 50 miles SW of Rapid City. It is the purchase of 66.79 acres for \$300,000 or \$4492 per acre after 586 days of MLS exposure. It is improved with a set of buildings that are reported by Custer County DOE to be 1950 era construction. They are not maintained and appear to be much older. In any case the vertical improvements are fully depreciated, making no contribution to value. Electricity and telephone are on-site. The sale does not have operational domestic water or sewer. There are no water features. Views are rated average to good with aesthetics are good due to a favorable mix of cover types and scattered rock outcrops. Access is via 2.25 miles of county gravel west of Pringle, SD.

Land Use is recreational or large tract residential. The buyers are from Golden, Colorado and plan to eventually build a seasonal residence on the property. The sale provides a value indication of \$4492 per acre, rated inferior to the subject, primarily due to location and access.

### ***Land Sale #6 & #7***



**Note: The scale bar is accurate, however the 1"= XXX may vary due to changes in photo size from original. Shaded areas represent USFS land.**

#### ***Land Sale 6:***

This March 2018 sale is located approximately 5.5 miles (direct distance) NW of Custer and 26.3 miles SW of Rapid City. It is the purchase of 78.58 acres for \$429,750 or \$5469 per acre. The sale was financed with a contract for deed. Terms were 20% down payment, 5.5% interest rate, 120 payments of \$2364.96 with a balloon payment due March 27, 2028. Rated CEV. The parcel is unimproved. Electricity and telecommunications are at the lot line. The sale has a shared well for domestic water but no sewer. Water features are limited to a very small stream. Views are rated average due to topography and timber contributing to short sight distances. Aesthetics are good due to a meadow / timber mix.

The sale borders US Forest Service land on three sides of the rear half of the parcels. Saginaw Road is on the front. Private land is on the north and south of the front half of the sale. This is one of a seven lot 2017 subdivision that essentially sold out in 2018. Use in the area is almost exclusively large tract residential mixed with USFS land.

The sale provides a value indication of \$5469 per acre, rated inferior to the subject primarily due to access.



***Land Sale 7***

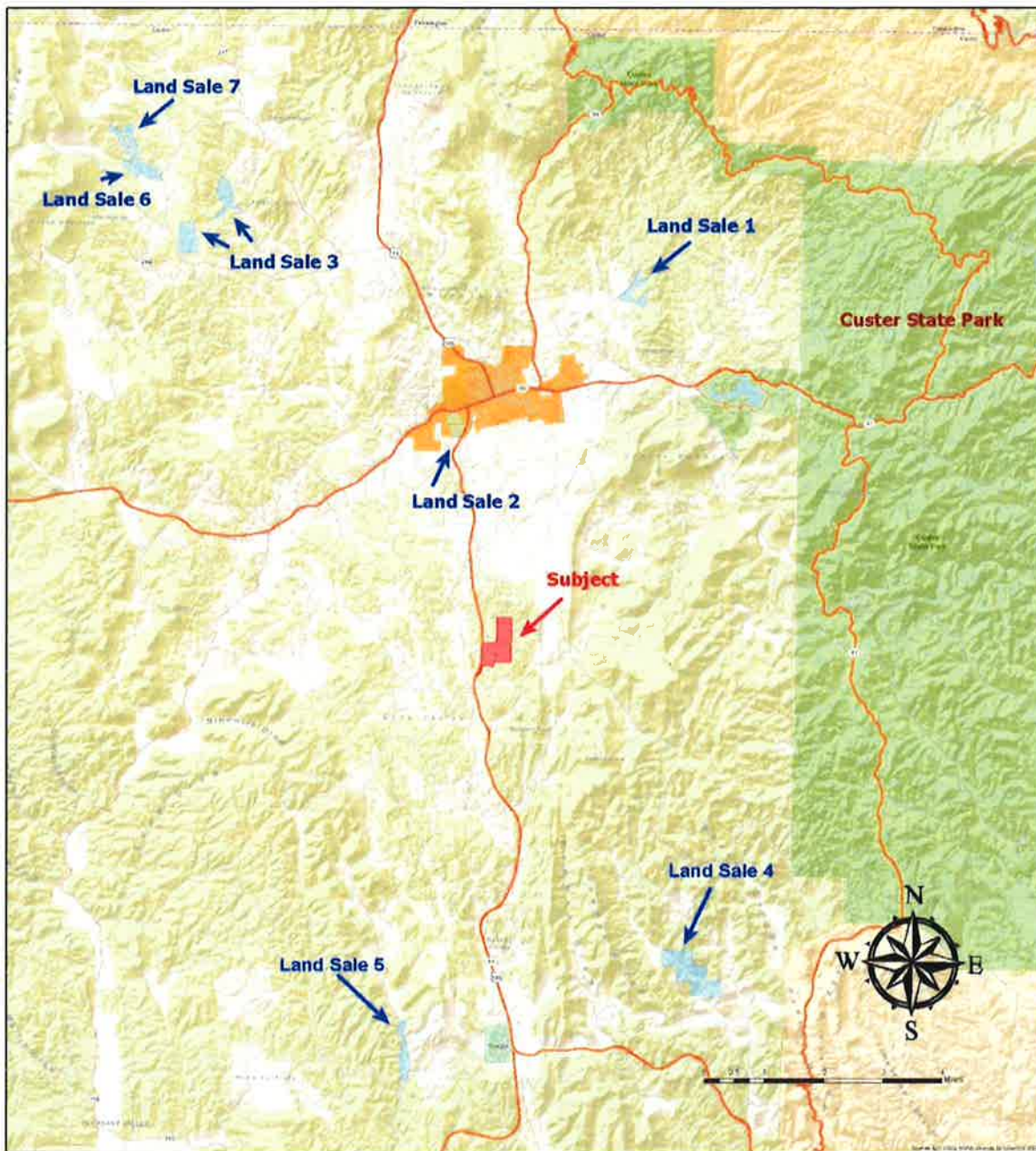
This December 2018 sale is located approximately 6.1 miles (direct distance) NW of Custer and 26.5 miles (direct distance) SW of Rapid City. It is the purchase of 57.56 acres for \$345,000 or \$5994 per acre after 1103 days of MLS exposure. It is unimproved. Electricity is 900 lf SW of the sale. The sale does not have domestic water or sewer, although alluvial water is near the surface. Views are limited due to sight distance. There are no water features. Aesthetics are good due to a meadow - timber mix. The sale is completely surrounded by USFS land. Land Use in the area is dominated by US Forest Service land. Private land is either vacant or large tract residential in use.

Access is via 1.5 miles of USFS Road 285.1A. This is a poorly maintained dirt road. During winter months there are times when the only access to the property is via over snow terrain enabled equipment. While the trail may not require 4-wheel drive except when wet or during light snow, typical passenger cars will not be able to navigate the road. Typically there is no recorded easement for private access to tracts similar to this sale. Recently the USFS has been denying access unless there is a recorded easement.

This sale provides a value indication of \$5994 per acre. Although the sale is only 33% the size of the subject it is rated inferior to the subject due to significantly inferior access, lack of water features, or well on premise.

The sales are displayed on the map that follows.

### Land Sales Map



#### FACTORS AFFECTING VALUE:

##### *Sale Conditions*

All sales are judged to have normal sale conditions. We make no adjustments for sale conditions.

### ***Market Conditions Adjustment***

The Black Hills and surrounding prairie markets, as other markets, enjoyed a period of favorable conditions from the late 1990's until the September 2008 financial market collapse. After the collapse there were downward pricing adjustments, with levels depending upon the sub-market. Developmental land experienced the most severe losses, 50% or more price declines in many cases. Residential and recreational land experienced 5-15% losses. Agricultural land and medical office properties experienced little if any loss. Sale 2 occurred in 2015. The remaining sales all occurred in 2017, 2018 or 2019. Market activity is currently better than 2015 levels, although we are unable to document market condition change with any statistical validity due to the small sample set. All sales are judged to be representative of current market conditions and we do not apply market condition adjustments to any of the sales.

### ***Water Features***

Live water features are one of the most important factors affecting land value in the Black Hills large tract residential and recreational markets. The pond on the subject is large enough to result in a positive value effect. Sales 1, 3, 4 & 6 are judged to have water features ranked nearly equal to the subject. Sales 2, 5 and 7 are ranked inferior to the subject for water features.

### ***Location / Distance to Subject***

The subject has a rural Custer location 3.1 miles (direct distance) from Custer. Sale 2 is located within the corporate boundaries of Custer and rated superior to the subject for location. Sales 4 and 5 are more than five miles farther from Custer than the subject. They are rated slightly inferior to the subject for location. Sale 1, 3, 6, and 7 have distances from Custer that are similar to the subject and rated nearly equal to the subject for location.

### ***Size***

The subject size is 173.39 ± acres, excluding the cemetery. The selected sales vary in size from 57.3 acres to 240 acres. Because sales larger than 80 acres are rare in the market there is little to no discount for size above 80 acres. Occasionally larger properties will command a premium. We rank the 4 sales smaller than 75 acres superior to the subject for size. Sales above 75 acres in size are ranked nearly equal to the subject for size.

### ***Legal and Physical Access***

Paved access is preferred, but short distances of gravel access are accepted in the market. Gravel access (obviously) ranks higher than dirt access. Also, public access is preferred, although private easements are accepted. The lack of legal access is discounted. It is common in the market for properties to travel over US Forest Service (USFS) two-track roads for access. Recently the Forest Service has been denying access to private property over some two-track roads unless there is a recorded easement. The subject fronts Hwy 385. Sale 2 is in Custer with frontage on both Hwy 385 and Hwy 16 with traffic counts superior to the subject. Access to Sale

2 is rated superior equal to the subject. Sale 1 is accessed via 1.7 miles of a county gravel road from Custer SD. It is rated slightly inferior to the subject for access. Sales 5 and 6 are located farther from Custer and have 2.25 miles and 5 miles of county gravel road. Both sales are rated inferior to the subject for access. Sales 3, 4 and 7 have significant distances on county gravel roads followed by dirt access with very low travel speeds. Sale 4 has a private access easement. Sales 3 and 7 have access across USFS land. It is unknown if there are recorded access easements for Sales 3 and 7. All three sales are rated significantly inferior to the subject for access.

### ***Seclusion / Surrounding Ownership***

An important factor in the large tract residential and recreational land markets is seclusion. Properties with significant USFS property joining the sale are desirable and generally command a premium relative to sales with surrounding ownership being private land. The premium is generally motivated by increased privacy, availability to open space and assurances the open space will continue for the foreseeable future without conversion to other uses. This factor offsets to some degree the discounting due to dirt access. The subject is surrounded by USFS land on all sides except the Hwy 385 frontage. Sale 2 is in Custer and surrounded by private land. Surrounding uses on the north and east sides are residential, commercial and light industrial. Use on the west and south sides is larger tract residential. Sale 2 is rated slightly inferior to the subject for seclusion / surrounding ownership. The remaining sales are predominately surrounded by USFS land and are rated nearly equal to the subject.

### ***Aesthetics / View***

Aesthetics and view are important in the amenity driven Black Hills land markets. Subject aesthetics and views are good. All seven (7) sales are rated nearly equal to the subject for views and aesthetics.

### ***Utilities***

While the subject has all utilities, including extensive infrastructure for heating, the cost of operation of the utilities is not financially feasible for less than 100 ± users. We do acknowledge the electricity, phone and Internet service. Given the well and water resources on site it would require in our opinion relatively minor effort to adapt the domestic water supplies to be sufficient for fewer users. The sewer system on the subject is complex and does not operate well with minimal or inconsistent flows. City services on Sale 2 are rated superior to the subject. Sales 3, 4, 5 and 6 have electricity, telecommunications and water. They are rated nearly equal to the subject. Sales 1 and 7 are without domestic water and are ranked slightly inferior to the subject.

To recap, seven comparable land sales are included in this study. Out of the over 50 sales reviewed, these are the sales most similar. The sales are summarized in the following tables.



Star Academy - 2019, 12279 Brady Drive, Custer, SD 57730

Land Sales Summary Table

Land Sale	Subject	1	2	3	4	5	6	7
<b>Sale Name</b>		33-18-08	DC889	33-19-02	33-17-04	33-17-01	33-18-11	33-18-09
<b>DB #</b>		59654		144215	54869	48260		49935
<b>MLS No</b>		695	8909, 8910, 4640	523, 524, 525 & 562	1989, 1990, 1991, 1992	1654	14395	510
<b>Tax Id</b>								
<b>Grantor</b>	South Dakota	Barkley	Flinstones Bedrock City	Atlantic Min Ranch	Soo Pheasants Properties	Lizinger, et. al.	McDill	McDill
<b>Grantee</b>		Marrs	Custer Hospitality	Eagle Properties LLC	Triple K Farms	Sorensen	Tanner	Hagen
<b>Rights</b>	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
<b>Bk Pg</b>		54D / 33	52D / 184	54D / 676	53D / 330	52D / 966	46M / 719	54D / 155
<b>Date</b>	11/8/2019	10/1/2018	9/15/2015	11/14/2019	8/25/2017	1/26/2017	3/22/2018	12/11/2018
<b>DOM</b>		30	0	164	30	586	0	1103
<b>Size (ac)</b>	173.39	57.3	62.2	165.3	240.0	66.8	78.6	57.6
<b>Sale Price</b>		\$500,000	\$1,035,000	\$800,000	\$1,150,000	\$300,000	\$429,750	\$345,000
<b>Sale Price per Ac</b>		\$8,727	\$16,637	\$4,840	\$4,792	\$4,492	\$5,469	\$5,993
<b>Improvement Contribution</b>		\$0	\$0	\$55,000	\$22,000	\$0	\$0	\$0
<b>Land Contribution</b>		\$500,000	\$1,035,000	\$745,000	\$1,128,000	\$300,000	\$429,750	\$345,000
<b>Land Contribution / Ac</b>		\$8,728	\$16,637	\$4,507	\$4,700	\$4,492	\$5,469	\$5,994
<b>Sale Conditions</b>	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal
<b>Market Conditions</b>	11/8/2019	Current	Current	Current	Current	Current	Current	Current
<b>Features Affecting Value</b>								
<b>Water Features</b>	Pond, Spring	Pond, Spring	None	Spring	Spring	None	Small Stream	None
<b>Ranking</b>			Slightly Inferior			Slightly Inferior		Slightly Inferior
<b>Location</b>	Rural Custer	Rural Custer	Custer	Rural Custer	Pringle	Pringle	Rural Custer	Rural Custer
<b>Distance from Custer (mi)</b>	3.1	1.7	0	4.5	9.2	9.8	5.4	6.1
<b>Distance to Subject (mi)</b>		5.7	3.1	7.9	5.4	6.1	9.2	9.9
<b>Ranking</b>			Superior		Slightly Inferior	Slightly Inferior		
<b>Size (ac)</b>	173.39	57.3	62.2	165.3	240.0	66.8	78.6	57.6
<b>Ranking</b>		Slightly Superior	Slightly Superior			Slightly Superior		Slightly Superior
<b>Legal Access</b>	Public	Public	Public	USFS Access	Private Access	Public	Public	USFS Access
<b>Physical Access</b>	Hwy 385	1.7 Mi County Gravel	Hwy 385	FS dirt	2.5 Mi Gv. .35 Mi dirt	2.25 Mi Gravel	5 Mi Gravel	1.5 Mi USFS Dirt
<b>Ranking</b>		Slightly Inferior	Superior	Significantly Inferior	Significantly Inferior	Inferior	Inferior	Significantly Inferior
<b>Seclusion / Joining Ownership</b>	USFS / Hwy 385	USFS	Private - Hwy Service	USFS	USFS	USFS / Private	USFS / Private	USFS
<b>Ranking</b>			Slightly Inferior					
<b>Aesthetics / View</b>	Good	Good	Good	Good	Good	Good	Good	Good
<b>Ranking</b>								
<b>Utilities</b>	ETW	ET	City Superior	ETWS	ET & Spring	ETW	ETW	BH Coop
<b>Ranking</b>		Slightly Inferior						Slightly Inferior
<b>Overall Ranking</b>		Slightly Superior	Significantly Super.	Significantly Inferior	Significantly Inferior	Inferior	Inferior	Inferior
<b>Land Value Indication</b>		\$8,728	\$16,637	\$4,507	\$4,700	\$4,492	\$5,469	\$5,994

The rankings of the sales are shown in the following table.

Sale #	Value Indication	Ranking	Comment
2	\$16,637	Significantly Super.	Superior Frontage, Visibility, Use and Utilities
1	\$8,728	Slightly Superior	Close to Custer, Smaller Size
<b>Subject</b>			
7	\$5,994	Inferior	Inferior Water Features, Access and Utilites. Smaller Size
6	\$5,469	Inferior	Inferior Access
5	\$4,492	Inferior	Inferior Location, Water Features and Access
4	\$4,700	Significantly Inferior	Inferior Location and Access
3	\$4,507	Significantly Inferior	Inferior Access

The sales present a range in value indications from \$4,492 per acre to \$16,637 per acre. Sale 2 is included primarily for bracketing purposes. It is served with city utilities and is clearly superior to the subject. None of the sales are highly similar as the subject. Nonetheless these seven sales are more similar than any other land sales in the market. The sales do bracket the subject in quality and except Sale 5 correlate well with each other. Using appraiser judgement, we select \$8,000 per acre as the value indication of land to apply to the subject. The value selection is not based on one of the sales, but rather the whole dataset.

When the \$8,000 per acre value selection is applied to the 173.39 acres of the subject, the result is **a value opinion for the land (as though vacant) of \$1,387,120.**

#### **SALES COMPARISON APPROACH:**

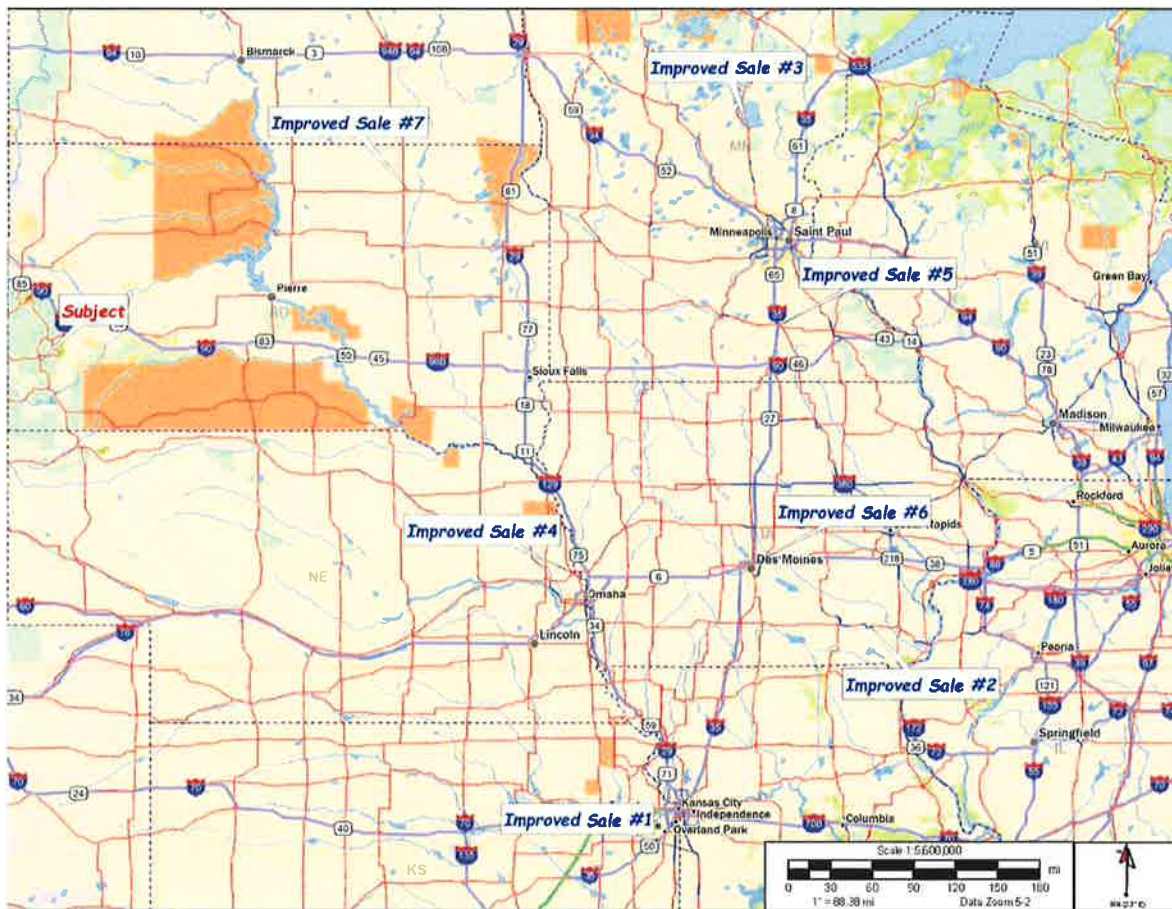
Clearly the subject is unique in the market. It is a complex of 27 buildings, many of them specialized in design and function. Moreover, these types of complexes are seldom sold. Building sizes varies from 308 sf to 50,262 sf. Total commercial GBA is 146,034 ± sf in 16 structures and GLA in 11 residences totaling 13,731 ± sf. Combined square footage for the subject is 159,765.

We extend our search for comparable sales to a multi-state region and identify seven sales of hospital buildings, nursing homes, and school buildings, the same uses of the subject over the past 100 years. We include the 2017 sale of the subject and a recent sale of a summer camp. We have not made personal inspections of the regional sales, although the data are provided by a network of appraisers and the data judged accurate.

Sale dates range from February 2011 to November 2019. Gross building Area (GBA) of the facilities bracket the subject from 31,750 sf to over 437,000 sf. Site size for the sales varies from 4 acres to the 173.39-acre sale of the subject. To isolate the building improvement contribution, we subtract the site contribution from the sale price.

The sales locations are shown on the map that follows.

### Improved Sales Map



We include a short description of each sale. Sale datasheets are available upon request and maintained in our work files.

#### ***Previous Sale of the Subject***

The previous sale of the subject for \$2,340,000 was a speculative purchase on a contract for deed for the minimum bid amount at a public auction with no other bidders. The minimum bid amount was based on a market value appraisal with an estimated 3-4 years marketing period. The buyer proposed to create a light industrial complex out of a recently closed 200 unit medical/educational facility. The lack of light industrial demand in a tourism community doomed the effort almost from the start. Since purchase in May 2017 almost no maintenance has been performed on a campus that required \$350,000 in annual maintenance prior to purchase. Deferred maintenance is beginning to accumulate.



***Sale 1: Pillsbury Baptist College, 315 S. Grove Avenue, Owatonna, Minnesota***



Sale 1 is an April 2014 sale of a 156,000 sf college campus for \$1,850,000 or \$11.86 per sf. The sale is in Owatonna, Minnesota, a community with a population of 25,500 +/- residents. The building was reported to be in fair condition at the time of sale. Land contribution is estimated at \$1,398,400, resulting in an improvement contribution of \$451,600 or \$2.89 per sf. The sale continued to be used as a college after purchase.



***Sale 2: Dana College, 2848 College Drive, Blair, Nebraska***



Sale 2 is a July 2013 sale of a 437,000 sf university campus for \$3,490,000 or \$7.99 per sf. The sale is in Blair, Nebraska, a community with a population of 8,000 +/- residents. The buildings were reported to be in fair condition at the time of sale. Land contribution is estimated at \$1,071,245 resulting in an improvement contribution of \$2,418,755 or \$5.53 per sf. The sale continued to be used as a private college after purchase.

***Sale 3: LADCO Development, 3010 Milwaukee Avenue, Aberdeen, South Dakota***



Sale 3 is an April 2015 sale of a 31,750 sf vacant office building for \$348,000 or \$10.96 per sf. The sale is in Aberdeen, South Dakota, a community with a population of 27,800 +/- residents. The building is reported to be in good condition at the time of sale. Land contribution is estimated at \$75,000 resulting in an improvement contribution of \$273,000 or \$8.60 per sf. The sale was used as a school administration building after purchase.



***Sale 4: Cass County Medical Center, 1800 East Mechanic, Harrisonville, Missouri***



Sale 4 is a February 2011 sale of a 62,000 sf hospital building for \$608,000 or \$9.81 per sf. The sale is located in Harrisonville, Missouri, a community with a population of 10,000 +/- residents. The building is reported to be in average condition at the time of sale. Land contribution is estimated at \$76,830 resulting in an improvement contribution of \$531,170 or \$8.57 per sf. The sale was converted to a senior living / care facility after purchase.

***Sale 5: Highland Plaza, 400 S. Highland, Fairfield, Iowa***



Sale 5 is an October 2012 sale of a 97,600 sf nursing home for \$675,000 or \$6.92 per sf. The sale is in Fairfield, Iowa, a community with a population of 9,500 +/- residents. The building was reported to be in average condition at the time of sale. Land contribution is estimated at \$83,700 resulting in an improvement contribution of \$591,300 or \$6.06 per sf. The sale continued to be used as a senior living / care facility after purchase.



***Sale 6: Mill Lacs Health System , 104 Crosier Drive, Onamia, Minnesota***



Sale 6 is an October 2012 sale of a 95,400 sf seminary school for \$895,000 or \$9.38 per sf. The sale is in Onamia, Minnesota, a community with a population of 900 +/- residents. The building is reported to be in good condition at the time of sale. Land contribution is estimated at \$95,100 resulting in an improvement contribution of \$799,900 or \$8.38 per sf. The sale was converted to offices after purchase.

***Sale 7: Woodside Business Park, 2945 NE Broadway Avenue, Des Moines, Iowa***



Sale 7 is a June 2014 sale of a 44,280 sf school for \$425,000 or \$9.60 per sf. The sale is in Des Moines, Iowa, a community with a population of 208,000 +/- residents. The building was reported to be in average condition at the time of sale. Land contribution is estimated at \$343,700 resulting in an improvement contribution of \$81,300 or \$1.84 per sf. The sale continued to be used as a school after purchase.



***Sale 8: Camp Goodwill, 570 152<sup>nd</sup> St, South Sioux City, NE***



Sale 8 is a pending November 2019 transaction of a 29,098 sf summer camp for \$1,990,000 or \$68.39 per sf. The sale is in South Sioux City, NE, a community with a population of 12,911 +/- residents although the community borders Sioux City IA with an additional 82,396 residents. The main building, shown above is 8 years old, and was in good condition at the time of sale. Land contribution is estimated at \$750,000 resulting in an improvement contribution of \$1,240,000 or \$42.61 per sf when the other buildings on campus are added to the GBA. It is presumed the sale will continued to be used as a summer camp after purchase and the sale will close.

The sales are summarized in the tables below.

Sale #	Location	Sale Date	Site Size (Ac)	Bldg Size (sf)	Bldg Age	Condition	Use
Subject	Custer, SD	11/19	173.39	159,765	1911-2014	Fair-Ave	School
Subject	Custer, SD	5/18	173.39	159,765	1911-2014	Fair-Good	School
1	Owatonna, MN	4/14	19 ac	156,000	1889-1979	Fair	Baptist College
2	Blair, NE	7/13	151 ac	437,000	1947-2007	Fair	College
3	Aberdeen, SD	4/15	5 ac	31,750	2001	Good	School Admin
4	Harrisonville, MO	2/11	13 ac	62,000	1961-83	Average	Hospital
5	Fairfield, IA	10/12	4 ac	97,600	1948-07	Average	Nursing Home
6	Onamia, MN	10/12	7 ac	95,400	±1890	Good	Seminary School
7	Des Moines, IA	6/14	10 ac	44,300	1961	Average	Christian School
8	Sioux City, NE	11/19	112.31	29,098	2000-2011	Ave-Good	Summer Camp

Sale #	Location	Bldg Size (sf)	Condition	Sale Price	Sale Price / sf	Land Contribution	Improvement Contribution	per sf
Subject	Custer, SD	159,765	Fair-Ave					
Subject	Custer, SD	159,765	Fair-Good	\$2,340,000	\$14.65	\$1,387,120	\$952,880	\$5.96
1	Owatonna, MN	156,000	Fair	\$1,850,000	\$11.86	\$1,398,400	\$451,600	\$2.89
2	Blair, NE	437,000	Fair	\$3,490,000	\$7.99	\$1,071,245	\$2,418,755	\$5.53
3	Aberdeen, SD	31,750	Good	\$348,000	\$10.96	\$75,000	\$273,000	\$8.60
4	Harrisonville, MO	62,000	Average	\$608,000	\$9.81	\$76,830	\$531,170	\$8.57
5	Fairfield, IA	97,600	Average	\$675,000	\$6.92	\$83,700	\$591,300	\$6.06
6	Onamia, MN	95,400	Good	\$895,000	\$9.38	\$95,100	\$799,900	\$8.38
7	Des Moines, IA	44,300	Average	\$425,000	\$9.59	\$343,700	\$81,300	\$1.84
8	Sioux City, NE	29,098	Ave-Good	\$1,990,000	\$68.39	\$750,000	\$1,240,000	\$42.61

The 159,765-sf shown for the subject in the table above includes 13,731 sf in the 11 residences. It is unlikely, given the overall complex, the residences will contribute at a rate above the contribution of the commercial buildings.

The improvement contribution from the eight sales present a range in value from \$1.84 per sf to \$42.61 per sf although use, age and improvement mix of Sale 8 (\$42.61 per sf) is inconsistent with the subject and the other 7 sales. When Sale 8 is excluded the mean and median indications of the remaining 7 sales including the subject is \$5.85 per sf and \$5.80. Harmonic mean for the data set is \$4.47 per sf.



The sales are ranked by condition in the table below. GBA size is also shown in the table below.

Sale	GBA (sf)	Condition	Improvement Contribution / sf
8	29,098	Good	\$42.61
3	31,750	Good	\$8.60
6	95,400	Good	\$8.38
4	62,000	Average	\$8.57
5	97,600	Average	\$6.06
7	44,300	Average	\$1.84
2	437,000	Fair	\$5.53
Subject	159,765	Fair-Good	\$4.94
1	156,000	Fair	\$2.89

Sales 1 and 2 are more similar to the subject than the other sales, although none of the sales are highly similar to the subject. Both are multiple buildings on a college campus and the only sales in excess of 100,000 sf GBA. The mean value indication provided by Sales 1 and 2 is \$4.21 per sf. Buildings on both campuses are rated in fair condition.

The fact that we must expand the search to February 2011 and 620 miles from the subject to find 8 sales (not including the 2018 sale of the subject) is clear indication of how rare sales remotely similar as the subject occur. Improvement contribution per sf is also a clear indication of demand or lack of it.

Also noteworthy in the dataset is use after sale was either the same use or very similar. The largest variation in use before and after the sales is from a hospital facility to a senior care facility. Demand for a use similar as the previous use of the subject, a state owned and operated resident school (detention facility) in or near Custer, South Dakota simply doesn't exist.

There is the added issue of accumulating deferred maintenance in the facility since sale in 2018 and the planned facility shut down.

Using appraiser judgement, we reconcile to a value opinion for the improvement contribution of \$4.00 per sf. This is based on the mean indication of Sales 4 and 5 adjusted downwards slightly (\$0.21 per sf) for the lack of demand in the market area for the subject compared to the other sales. The previous sale of the subject is considered and adjusted downward for deferred maintenance since the May 2017 sale.

Applying the \$4.00 per sf value indication to the 159,765 sf of the subject results in an **improvement contribution for the subject of \$639,060.**

When the land value opinion (\$1,387,120) is added to the improvement contribution opinion, the result is a **value opinion from the approach of \$2,026,180, rounded to \$2,000,000.**

## FINAL RECONCILIATION

In the final reconciliation, we consider the entire appraisal, making sure that the data available and the analytical techniques and logic applied led to consistent judgments.

Re-examining the appraisal helps ensure its accuracy, its consistency, and the logic leading to the value indications. Appropriateness, accuracy, and quantity of evidence are the criteria with which we formed a meaningful and defensible final opinion of value for the subject property.

The values are summarized in the next table, with an effective value date of November 8, 2019.

Approach	Opinion
Land Value - Sales Comparison Approach	\$1,387,120
Improvement Contribution - Sales Comparison Approach	\$639,060
Income Approach	Not Applicable
Cost Approach	Not Applicable
<b>Total</b>	<b>\$2,026,180</b>
<b>Final Value (Rounded)</b>	<b>\$2,000,000</b>

The final land value opinion is based on seven sales. Although defaulting on the contract sale after 1 year, the previous sale of the subject provides support as well. The seven sales do bracket the subject in quality and overall and provide a relatively narrow range in value indications for the subject.

The subject's improvements are rare in the market. Nonetheless we identified seven sales of hospital / school facilities, that are somewhat similar as the subject. The value range in the comparable sales is narrow and improvements in two of the sales are somewhat similar as the subject improvements. Additionally, there are several subject buildings that do have utility for other uses, such as the 2014 maintenance building, the shop, the administration building and the 4 newer residences.

Based on available sales and appraiser judgement, we consider the value opinions developed for land and improvement contributions reasonable.

Based on the certifications, assumptions and limiting conditions attached, our final market value opinion of the subject, "As Is" as of November 8, 2019, is:

**FEE SIMPLE ESTATE- "AS IS" CONDITION**  
**\*\*\*TWO MILLION DOLLARS\*\*\***  
**\*\*\*\$2,000,000\*\*\***

## **APPRAISER'S CERTIFICATION – 2018/2019 USPAP**

We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
4. We performed a market value appraisal but no other services regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment. The market value appraisal was completed July 31, 2017 with an effective date of April 13, 2017.
5. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. Mr. March made a physical inspection of the property appraised and the property owner, or designated representative, was given the opportunity to accompany the appraiser on the property inspection. Mr. Simpson interviewed the client, over the telephone. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* and to the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.
9. No one provided significant real property appraisal assistance to the persons signing this certification.
10. As of the date of this report, Ken E. Simpson, MAI, SRA, R/W-AC has completed the requirements of the continuing education program for Designated Members of the Appraisal Institute, the Department of Labor and Regulation of the State of South Dakota and the Wyoming Real Estate Appraiser Boards. Mr. March has completed the requirements for the Department of Labor and Regulation of the State of South Dakota.



11. We have the knowledge and the experience to complete this appraisal; also, we have appraised this property type before.
12. Neither we, nor our employer, if any, have been sued by a regulatory agency or financial institution for fraud or negligence involving an appraisal report.
13. This appraisal assignment was not based on a requested minimum valuation, a specific valuation, a range of values, or the approval of a loan.
14. I, Ken E. Simpson, certify that I currently hold a State Certified General Appraiser credential by the South Dakota Department of Labor and Regulation. The current certification, license #104GC-2020, will expire September 30, 2020. The certification is renewed annually and is not a temporary permit. I also hold a Certified General Appraiser Permit in the state of Wyoming. I, Rick March certify that I currently hold a State Certified General Appraiser license by the South Dakota Department of Labor and Regulation. The current certification, license #870-2020 will expire September 30, 2020. The certification is renewed annually and is not a temporary permit.
15. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.



K.E. Simpson, MAI, SRA, R/W-AC  
State Certified General Appraiser SD, WY



Rick March  
State Certified General Appraiser SD

## **GENERAL LIMITING CONDITIONS AND ASSUMPTIONS**

This is to certify that the appraisers, in submitting the stated opinions of value of the subject property, acted in accordance with and are bound by the following principals, limiting conditions and assumptions.

1. The legal description and site area have been based on information furnished to the appraisers and are assumed to be correct.
2. It is assumed that the property complies with all applicable federal, state and local laws, ordinances, regulations, building standards, use restrictions and zoning unless the lack of compliance is stated in the appraisal report. Determining and reporting on such compliance were not part of the scope of work for this assignment.
3. It is assumed that use of the land and improvements and their construction is confined within the boundaries or property lines of the subject property and that there are no encroachments or trespasses unless noted in the appraisal report. Determining and reporting encroachments or trespasses were not within the scope of work for this assignment.
4. It is assumed that all water, sewer facilities and utilities (whether existing or proposed) are or will be in good working order, safe for use and sufficient to serve the current or proposed use(s) of the subject property; or any structures or other improvements. Determining and reporting on such matters were not part of the scope of work for this assignment.
5. The appraisers have not made any inspection or survey of the property to determine if it is in conformity with the Americans with Disabilities Act (ADA) or similar state or local laws or ordinances. It is possible that such an inspection or survey of the property or an analysis of the applicable legal requirements could reveal that the property is not in compliance with one or more of the requirements of the ADA, or similar laws or ordinance. If so, this could have a negative effect on the value and use of the property.
6. Any estimate of insurable value, if included within the scope of work and presented here, is based upon figures developed consistent with regular appraisal practices. However, actual local and regional construction costs may vary significantly from the estimate, and individual insurance policies and underwriters have varied specifications, exclusions and non-insurable items. As such, we strongly recommend that estimates be obtained from professionals experienced in establishing appropriate insurance coverage. This analysis should not be relied upon to determine insurance coverage and we make no warranties regarding this estimate.
7. Any cash flows, analyses of estimated income or forecasts of future economic conditions performed for this appraisal or included in this report are predicated on the information and

assumptions contained within the report and are not predictions or guaranties of the future. The achievement of any financial projections or forecast relating to the subject property will be affected by fluctuating economic conditions and will depend on other future occurrences that cannot be assured. Actual results will vary from any projections or forecasts stated in this report. The appraisers performing this appraisal do not warrant any projections or forecasts.

8. Maps, drawings, sketches, if any, are provided to assist the reader in visualization and orientation of the property being appraised and other comparable sales and are deemed to be correct and for this sole purpose only.

9. No formal survey of the property was made and no responsibility in connection with such matters is assumed.

10. No responsibility is assumed for matters legal in nature, nor is any opinion rendered as to the merchantability of the title of the property herein appraised.

11. All existing liens and encumbrances, if any, have been disregarded, and the property appraised as if free and clear, unless otherwise stated.

12. Merchantable title of the entire fee simple estate and responsible management are assumed, unless otherwise stated.

13. We made a personal interior and/or exterior inspection of the subject property and exterior viewing of comparable sales of properties used in the appraisal report, unless specifically stated otherwise. The term "inspection" is not intended to imply a structural engineering, or home/building inspection that would be similar as that of a professional building inspector.

14. The appraisal was made for the objective and function as stated herein and should not be used for any other purpose.

15. Loss, removal, or modification of any portion of the report renders the entire appraisal null and void. Also, use of the appraisal is reserved solely to the named client, and principal lender, if any, and use of it or any portions excerpted, reproduced or transmitted to any other individuals from the complete report for public, quasi-public or private knowledge is prohibited, except with the prior written consent of the appraisers. Retention of this report does not carry the right of publication. No permission is given for any third parties to rely on any of this report without the specific prior written consent of the appraisers.

16. Compensation for preparation of this appraisal report has no relation to the final values reported.

17. It is agreed and understood that attendance at and testimony at legal proceedings in connection with this appraisal of the subject property will not be required. However, should any legal proceedings develop, the recipient of this report agrees, as evidenced by acceptance, retention and payment of the fee for same, to be obligated for and shall further compensate the appraiser(s) for any additional appraisal services that may be required of him at his/her standard professional rate. If testimony or deposition is required because of subpoena, the client shall be responsible for all costs to the appraiser(s) for additional time, fees, and charges regardless of issuing party.

18. Information, estimates and opinions furnished to the appraisers, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished to the appraisers can be assumed by the appraisers. Only known facts, factors and circumstances in existence, unless otherwise stated, have been given consideration.

19. The distribution of evaluation, between land and improvement, if any, applies only under the existing program of utilization. Separate valuations of land and building, if any, must not be used in conjunction with any other appraisal and are invalid if so used.

20. The appraisers assume that there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more, or less valuable. No responsibility is assumed for such conditions, or for obtaining the engineering or other studies which may be required to discover such them. Such matters were not part of the scope of work for this assignment.

21. All appraisals that are subject to satisfactory completion, repairs, or alterations, are contingent upon completion of the improvements in a workmanlike manner, unless otherwise stated.

22. Original digital signatures of the appraisers are placed upon all original reports and authorized copies. Any reports that do not contain original signatures are null and void and should not be considered valid or with merit.

23. Unless otherwise stated in this report, the past or current existence of hazardous materials or environmental contamination on, below or near the subject property was not observed or known by the appraisers. The appraisers, however, are not qualified to detect such substances or to make determinations about their presence. The presence of substances such as asbestos, urea-formaldehyde foam insulation, radon gas, underground fuel tank leakage or other potentially hazardous materials or environmental contamination may affect the value of the property. Unless otherwise stated, the value estimated is predicated on the assumption that there is no such material or contamination on, below or affecting the property that would cause a loss in value.



No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The intended user is urged to retain an expert in this field, if desired.

24. Mechanical systems, if any, including, but not limited to heating, cooling, plumbing and the like, are assumed to be in good working condition, unless specifically stated otherwise in this report. We have not critically inspected mechanical components within the improvements and no representations are made herein as to these matters unless specifically stated and considered in the report.

25. The appraisers reserve the right to alter statements, analysis, conclusion or any value opinion in the appraisal if there become known to us facts pertinent to the appraisal process which were unknown to us at the time of the report preparation.

26. Opinions and estimates expressed herein represent our best judgment but should not be construed as advice of recommendation to act. Any actions taken by you, the client, or any others should be based on your own judgment, and the decision process should consider many factors other than just the value estimate and the information given in this report.

27. Use of, or reliance on this appraisal, regardless of whether such use or reliance is known or authorized by the appraisers, constitutes acknowledgement and acceptance of these general assumptions and limiting conditions, any extraordinary assumptions or hypothetical conditions, and any other terms and conditions stated in this report.

(revised 9.27.2019)